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Politics this week

Jul 24th 2003
From The Economist print edition

Brothers killed

AFP

Saddam Hussein's sons, **Uday and Qusay**, were killed in an American missile barrage on a villa in Mosul after an informant, who presumably gets the $30m bounty on offer, led the Americans to their hideout. A message from Saddam, apparently recorded two days earlier, urged resistance to continue; two American soldiers were killed immediately after the sons' deaths, and three more the next day. George Bush said the death of Saddam's sons should reassure Iraqis that the former regime would not come back.

See article: Uday and Qusay Saddam Hussein

Rebels continued their assault on **Liberia's** capital Monrovia. A force of about 1,300 Nigerian peacekeepers, now in Sierra Leone, is supposed to be redeployed to Liberia in about a week.

See article: A desperate cry for help

After strong disagreement between **Israel** and the **Palestinian Authority** over the number of Palestinian prisoners that Israel is prepared to release, Mahmoud Abbas set off for his first visit as prime minister to President George Bush in Washington. Ariel Sharon will follow him there next week.

See article: The Palestinians' fragile ceasefire

In a wide security sweep, **Saudi Arabia** arrested 16 suspected al-Qaeda supporters. **Iran** also announced that it was holding several senior members of al-Qaeda. **Morocco** began the trial of people charged with involvement in the suicide bombing in Casablanca in May.

See article: Saudi Arabian crackdown

Canada recalled its ambassador from Tehran when **Iran** declined its request that the body of Zahra Kazemi, a Canadian journalist who died from a blow to the head while under arrest, should be returned to Canada.

São Tomé's president returned home after signing a deal with the coup leader who toppled him last week.

Mass destruction

The row in Britain over the government's alleged “sexing-up” of intelligence on Iraq's supposed weapons of mass destruction spun out of control. David Kelly, a defence ministry adviser exposed as a source for the BBC's allegation, committed suicide. The press savaged **Tony Blair** and his chief spin doctor, Alastair Campbell—and the BBC.

See article: Blair, the BBC and the war

Italy's senate passed a bill easing restrictions on large television companies. Big gainer: Mediaset, controlled by Fininvest, a vehicle of Silvio Berlusconi. The bill went to the lower house. That house passed a bill that was supposed to regulate Mr Berlusconi's conflicts of interest. It won't, said the left.

See article: Italy's new laws

In **Spain**, ETA terrorists seeking independence for the Basques exploded two bombs on the Costa Blanca tourist coast at the other side of the country. And in **France**, Corsican separatists set off bombs on the island and the mainland. Corsicans recently narrowly voted down a government plan to give the island more autonomy.

AFP

Poland's government dropped a media bill that would make it harder for press publishers to buy into television. It had led to a scandal over claims that politicians had sought bribes from the publisher most concerned to ease the rules.

Platon Lebedev, a major shareholder in Yukos, **Russia's** biggest oil producer, was freed after three weeks in jail. His arrest, following probes into Yukos's dealings and taxes, had been seen as an attack on the company and its boss, Mikhail Khodorkovsky, badly rattling the stockmarket.

Good ol' boys

Italy's controversial prime minister, Silvio Berlusconi, visited George Bush at his ranch in Crawford, Texas. At a brief news conference, both men, wearing cowboy boots, spoke about nuclear arms, peace in the Middle East and repairing relations between Europe and America.

James Davis, a member of New York's city council, was shot dead at City Hall by a political opponent. The killer was subsequently shot dead by a policeman.

California's secretary of state said that the campaign to unseat Gray Davis, California's governor, has collected 1.3m votes, more than enough to force a recall ballot. A special election could now be held as early as September 23rd.

A grand-jury investigation into allegations of **sexual abuse** by priests in Boston's Catholic archdiocese will not result in any criminal indictments; instead it has reported on ways to prevent further cases. Alleged victims criticised the decision as “deference” to the church.

Private Jessica Lynch returned to a hero's welcome in her hometown of Palestine, West Virginia. The details of her unit's capture and subsequent rescue during the Iraq war are still hotly disputed.

See article: Iraq, continued

Concealed weapons

Amid fears that **North Korea's** nuclear-weapons programme may be more advanced than was previously thought, Japan was said to be urging America to make concessions to end the tension in the peninsula.

See article: Averting an apocalypse

Two of **Japan's** opposition parties, the Democratic Party and the Liberal Party, agreed to merge in a move to defeat Junichiro Koizumi's ruling coalition. Speculation grew that a general election may be held this year.

An Australian-led peacekeeping force began to arrive in the **Solomon Islands** to restore law and order to the troubled Pacific archipelago.

See article: The Solomons intervention

Eight soldiers and seven civilians were killed in attacks in Indian-administered **Kashmir**. India blamed Pakistan-backed guerrillas, but its defence minister, George Fernandes, said it would continue to seek peace with its neighbour.

Not very Manley

John Manley, **Canada's** deputy prime minister, pulled out of the contest to succeed Jean Chrétien as leader of the Liberal Party (and thus prime minister). He gave his backing to Paul Martin, a former finance minister and long the front-runner for the job.

See article: Canada's succession walkover

Carlos Castaño, the leader of **Colombia's** right-wing paramilitary vigilantes, said that 5,000 of his men would assemble at government-patrolled camps within three months, as part of peace talks.

Getty

Some 100,000 people lined the streets of New York for the funeral of **Celia Cruz**, a Cuban-born salsa singer.

See article: Celia Cruz, queen of salsa

Brazil's senate unanimously approved a bill imposing tough new gun controls and proposing a referendum in 2005 to ban gun sales. The bill now goes to the lower house.

See article: One victim every minute

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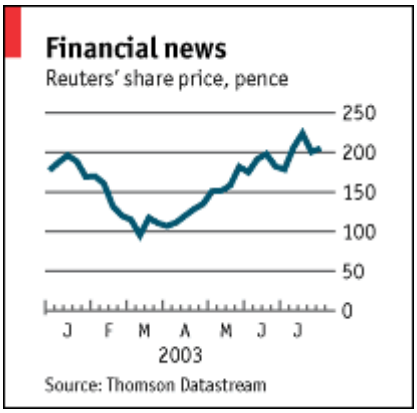
Business this week

Jul 24th 2003
From The Economist print edition

Sweet and sour

AOL Time Warner had a bumper second quarter. The world's leading media conglomerate made a profit of $1.1 billion. But the company's AOL online arm is still losing subscribers. And the Securities and Exchange Commission announced that the accounting for transactions between AOL Time Warner and Germany's Bertelsmann was “incorrect”.

Reuters handily exceeded expectations with a pre-tax profit of £87m ($140m) in the first half. Revenues fell, but the firm reassured investors that the decline would slow later this year. Reuters' share price (which has doubled since March) fell by 8%.



Amazon, the world's leading online retailer, narrowed its loss to $43m in the second quarter, compared with a loss of $94m a year ago. An increase in revenues of 37% was assisted by the magical effect of the launch of the latest Harry Potter tome.

Haim Saban is said to have renewed his interest in **KirchMedia** some weeks after talks between the Hollywood mogul and Kirch's creditor banks broke down. Mr Saban is reported to have reduced his offer for KirchMedia, perhaps hoping that the banks will sell rather than pump more money into the bankrupt German media firm.

Metal fatigue

Pechiney reported operating profits in the second quarter down by 51% on a year ago, to *euro*67m ($76m). The French aluminium company brought the announcement forward to help its campaign to head off a hostile bid from Alcan, a Canadian rival. It reported a net loss of $89m.

WPP, one of the world's biggest advertising agencies, won its battle to buy Cordiant, a smaller rival. Active Value, a fund manager which had built up a stake of 29% in Cordiant, had threatened to block the deal, but it ended up voting in favour. Active Value may have lost over £30m ($48m) for its pains.

Cadbury Schweppes blamed an unseasonally cold winter and wet spring in America for a decline in fizzy-drink sales and a slide in profits. The world's largest confectioner made operating profits of £366m ($590m) in the first half, a 5% drop on the same period last year.

F-stop off

Eastman Kodak said that it would axe up to 6,000 jobs—around 9% of its workforce—after disappointing results in the second quarter. The photographic giant reported a slender $112m profit, compared with $284m the year before: it pointed the finger at the rise of digital photography and a decline in tourism.

British Airways contributed to the decline in tourist numbers. A strike at one of its busiest times caused the cancellation of 500 flights and the great displeasure of its customers. BA cancelled an advertising campaign that joked about the unreliability of low-cost airlines.

See article: British Airways in trouble

Boeing announced a loss of $192m in the second quarter, a week after announcing that it would cut a further 5,000 jobs. The aircraft-maker was forced to take a charge of $1.1 billion at its satellite unit.

See article: A troubled aerospace giant

Drugged up

GlaxoSmithKline, Europe's biggest drug firm, said that pre-tax profits for the second quarter were up by 15% to £1.9 billion ($3.0 billion) despite competition from generic drugmakers taking advantage of lapsed patents.

Novartis, Europe's second-biggest drugmaker, reported a 2.3% rise in second-quarter profits compared with a year ago, to $1.3 billion, though sales increased by 19%. The Swiss company said big spending on research and marketing had prevented faster profit growth. **Roche**, a rival Swiss drug company, which recently resisted a takeover by Novartis, saw its profits fall by 28% to SFr1.3 billion ($1.0 billion).

Lehman Brothers moved to expand its fund-management business by buying **Neuberger Berman** for $2.6 billion in cash and shares. The deal will allow the American bank to double the funds it has under management.

Setting Sun?

Sun Microsystems made a measly $12m in the latest quarter, well below analysts' expectations. The computer-maker was hit by weak demand; its shares fell sharply.

Infineon, the world's sixth-largest chipmaker, lost *euro*116m ($132m) in the latest quarter, its ninth quarterly loss in a row. But the German firm suggested that its market might recover next year.

Cisco Systems refused to take up the tech industry's latest fad: dropping stock options. The network-equipment giant awarded another 2m to its chief executive, John Chambers, doubling the number that he has received already this year.

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The David Kelly affair

Blair, the BBC and the war

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Neither the government nor the BBC will emerge from this scandal untainted

THE rapturous ovations that greeted Tony Blair's speech last week to both houses of America's Congress had barely died down before Britain's prime minister was cast low by a shocking development in the war. Not the war in Iraq, but a related and ferocious war he is waging at home against Britain's state-financed broadcaster, the BBC.

Within hours of Mr Blair's speech, one of the government's leading authorities on Iraq's weapons of mass destruction was found dead. He had killed himself. The government had earlier named this man, David Kelly, as the source for BBC reports that the government had "sexed-up" the evidence on Iraq's weapons of mass destruction. Specifically, the BBC had reported its source as criticising the government's claim that Iraq's WMD could be deployed at 45 minutes' notice, later emphasised by the prime minister to great effect. This had been included in the government's published dossier of intelligence at the last minute, according to the source, at the insistence of 10 Downing Street and against the wishes of the intelligence agencies.

After being named as the likely source last week, Mr Kelly gave evidence to a committee of the House of Commons. He contradicted the BBC's accounts. The BBC has since acknowledged that Mr Kelly was its main source—but the corporation continues to stand by its reports. Implicitly, therefore, the BBC accuses Mr Kelly of having misled the committee.

Somebody lied

Mr Kelly was, by all accounts, a good man and an outstanding public servant. He often met reporters; it had long been part of his job to brief them. He found himself at the centre of this growing storm after having reported informal ("unauthorised") contacts with the BBC to his bosses at the Ministry of Defence. He hoped for anonymity; the ministry, in a roundabout way, subsequently outed him to the press as the mole. The rest followed. Did Mr Kelly end his life because of the intolerable pressure the government thereby put him under? Or was the BBC mainly at fault—for embroidering, or maybe grossly distorting, what Mr Kelly had told it?

Much is still unclear, and not everybody is telling the truth. An independent inquiry has been set up (see article). But it may never be possible to answer the central question: did Mr Kelly tell the BBC everything the BBC says he did? Whatever the inquiry finds, a quarrel that had already become insanely bitter and protracted has taken on even greater political weight. The BBC and the government alike are suffering serious and possibly irreversible damage.

The BBC's conduct has been less than impeccable. Senior executives have acknowledged, for instance, that they erred in statements describing Mr Kelly as an "intelligence source"; in fact, he was not a member of the intelligence services. The BBC got other things wrong as well. The accusation in Mr Gilligan's report was not put to the government in a way that would have allowed it to respond before the broadcast; so his report carried no denial or rebuttal. Once the feud had begun, the BBC's governors issued a statement unreservedly standing by the corporation's journalism. It has emerged that the governors did not satisfy themselves about the truth of the reports, confining themselves to judging whether procedures had been complied with. Not good enough.

And it must be admitted that the government had reason to be annoyed with the rest of the corporation's reporting on its policy towards Iraq. The BBC was once New Labour's friend, not because of any sinister conspiracy, but because the people who work in its news and current-affairs departments mostly share a soft-left world-view: instinctive statism, cordial anti-capitalism, and *bien-pensant* liberal internationalism. Its reporters' prejudices, allied to the modern preference in broadcast news for context and commentary (that is, opinion) over facts, yielded a generally pessimistic account of British and American actions before, during and after the war. The BBC's story on the spinning of intelligence certainly fit this mould.

Yet be careful. Some commentators, especially in America, conclude from all this that the BBC is the principal villain in the tale, and that the government stands largely vindicated. Not so. To suggest, for instance, that Mr Kelly was not on the face of it a reputable source for the BBC's story is wrong. Though not an intelligence officer, and though not, according to what he told the committee, involved in managing the compilation of the dossier, he was nonetheless an authority in the field and an author of material in the dossier; he had wide access to intelligence on Iraq's WMD; he was doubtless in frequent contact with intelligence officials and aware of their views; and he was a senior adviser to the foreign secretary on this very subject. If a man of this standing tells you what the BBC says he said, you have a story.

Verdict of history

Mr Kelly told the Commons committee that he did not recognise Mr Gilligan's account of his interview. Perhaps Mr Gilligan twisted his words. If so, he behaved disgracefully—and the consequences for the BBC's reputation would be dire. But two other BBC reporters, who also had conversations with Mr Kelly, reported their source in milder terms as also having said that political spin had played a role in the preparation of the dossier. (One of them, the BBC says, has a tape; this will be submitted as part of the corporation's evidence to the inquiry.) And the truth is that Mr Kelly's evidence to the committee was not very convincing; many of his answers seemed evasive, and his denials were oddly qualified and hesitant. It could be that the BBC fairly reported what he said—but this was more than he was willing to admit to his employer, leaving him struggling to row back.

On this view, the BBC's worst sin in the dossier story may have been that it was a bit sloppy about details, and then defended its position as the argument developed too inflexibly. History will forgive that. The government, it seems, has rather more to be ashamed of. Its fury over the BBC's allegations—how *dare* you suggest that we would spin the facts?—is hollow. The government has already acknowledged that much of its second dossier on Iraq, purporting to be of intelligence material, was cut-and-pasted from the internet by a propaganda unit. Iraq aside, spin is standard procedure for this government, as every British voter understands. That is why Alastair Campbell, the unelected official in charge of the government's “communications and strategy”, is rightly regarded as one of the most powerful men in the country.

We are to believe that the delicate Mr Campbell, chief of spin, was deeply wounded to be accused of bending facts. Full of righteous indignation, outraged that he might not be taken at his word, he declared war on the BBC over its report of May 29th and, presumably with the blessing of the prime minister, escalated the conflict. The government's war against the BBC was a war of hypocrisy. And ministers have further questions to answer. How did Mr Kelly's name come to be leaked to the press? The prime minister and the defence secretary have said it was nothing to do with them. Yet both the Ministry of Defence and Downing Street dropped hints to journalists, and when the hints were taken up the name was confirmed.

Mr Kelly was the victim of a needlessly prolonged fight between the government and the BBC. He had doubts about the way intelligence was presented to the public. Yet, according to friends, he was sure that WMD would eventually be found in Iraq. He wanted to return to that country and find them. Sadly for him, and for Britain, that will no longer be possible.

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Genetically modified food

In a stew

Jul 24th 2003
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The latest research suggests that, even for Europeans, GM food is safe

Get article background

GENETICALLY modified food provokes skirmishes all over the world, but the main battle is between America, which champions the stuff, and the European Union, which resists it. Proponents of GM crops say they are safe, good for the environment and may provide cheaper and better food. Opponents say GM is unnatural, dangerous and unnecessary.

It is perhaps little wonder that Europeans, remembering such recent scares as mad-cow disease, have balked at the prospect of eating or growing GM food. Americans argue that this nervousness is scientifically unjustified and serves European political—and farm—interests nicely by keeping out competition. Hence America's willingness to arraign the Europeans before the World Trade Organisation unless the EU lifts its five-year moratorium on new GM varieties.

Eat your greens

When it comes to the science, America is right. As yet another (British) panel concluded this week, there is no evidence that GM crops now in commercial cultivation are more dangerous to human health than conventional foods (see article). So there is no reason why Europeans should not eat the GM food that Americans already consume by the siloful, nor why their governments should obstruct GM imports.

As for growing GM crops, experience outside Europe suggests that they are no worse for the environment than normal farming, and can be better. But this is not to say that GM crops will be benign everywhere. Farming is not like medicine, with a biotech drug that cures in Peoria having the same effect in Paris. Introducing GM crops into Europe justifies rigorous testing to see how they affect local conditions. Such uncertainties are best dealt with by more research, not blanket rejection.

If this research confirms that GM crops have no more detrimental environmental effects than conventional farming, they should be approved for commercial use. Thanks to scaremongering by green lobbyists and organic farmers, and much media frenzy, most European shoppers will probably remain mistrustful. But there has been some shift in opinion: hostility to GM food seems to be abating. That hostility will fall away faster should some GM food prove to be cheaper than non-GM food, which may yet happen.

One reason for this is that, later this year, Europe will introduce a needlessly elaborate new scheme of labelling and tracking GM foods right through the food chain, which is meant to give consumers more choice by alerting them to GM products. America criticises the new labels partly because they single out “GM-derived” ingredients, such as oils and sugars, which are so refined as to lack any biological trace of genetic modification, and partly because the traceability requirements will be onerous. Yet America itself is working on tracking regulations to identify the provenance of ingredients and stem the risk of terrorist attack on its food supply. Labelling in principle is fine, where consumers demand it, as in Europe—but the schemes do need to be well-designed.

Europe's farmers could benefit from some GM crops, but such gains pale by comparison with the handouts they get from the Common Agricultural Policy. As for consumers, so far GM crops have made little difference to the quality or cost of the goods in the supermarkets. The new labelling scheme may change that, by making it more costly to source wholly non-GM products. As GM technology develops, continued European rejection of GM could mean it loses out on future crops that might benefit its landscape, and boost its farm and science industries.

The irony of the battle over GM food is that so much passion is being wasted on such mundane fruits of modern science. Today's GM crops are of modest advantage and risk. It is naive to argue that GM food will eradicate world hunger. Rural poverty in the developing world is a complex problem: poor farmers need better roads, and more liberal farm policies in the rich countries, as much as they need GM crops.

Instead, the value of GM technology lies more in its promise, not its present. Even if the future harvest of hardier crops and healthier foods does not materialise from the lab, the battle over GM food will have been useful. Without it, the old ways of food regulation, farm testing, commodity handling and public consultation would not have been shaken up and hauled into the 21st century. GM crops have served as seeds of change, whether or not they reap the eventual rewards.

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Israel, the Palestinians and George Bush

The small candle of non-violence

Jul 24th 2003
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And ways to keep it alight

EPA

CORDIAL they can be, but sombre they should be. As George Bush welcomes Mahmoud Abbas this Friday, and Ariel Sharon the following Tuesday, the president and the two prime ministers can, if their luck holds out till then, be grateful that nothing particularly bad has happened in the month since July 1st when they celebrated taking the first steps on the road map to peace. But nothing very good has happened either. Given the shortness of the grace period that militant Palestinians have allowed Mr Abbas, such inaction is folly.

Mr Abbas is a decent man whom the Americans, and the Israelis, can work with. Above all, he is not Yasser Arafat, the Palestinians' elected president, whom, unfairly or not, they have written off as a scoundrel. But Mr Abbas has no legitimacy beyond being Mr Arafat's appointee, and he has yet to prove himself to a sceptical Palestinian public. He managed, with great difficulty, to extract a three-month ceasefire from Hamas, Islamic Jihad, and the al-Aqsa Brigades that are linked to his own Fatah movement. Though the ceasefire has not been watertight, there has been a dramatic drop in Palestinian violence, and in the fear of violence. But let nobody be lulled. The truce will not be extended indefinitely or automatically.

Mr Bush has probably by now accepted the impracticality of instructing Mr Abbas to go after the militant factions with force. It might be good if Mr Abbas could, but he can't. Until he can show that he has something to offer in exchange, his own Fatah people would defy him. After all, it was rogue elements in al-Aqsa, rather than in tighter-controlled Hamas, that have so far been responsible for the cracks in the truce. Mr Abbas has to treat with the young men of post-*intifada* Fatah as well as with the old men of Hamas. If he is to succeed, he needs a much stronger hand than he has at present.

The onus, at this point, is squarely on Mr Sharon to help Mr Abbas keep alight the dim flame of non-violence. There are several fairly easy ways of doing this. Though Mr Sharon has withdrawn troops from one or two areas, he has not relaxed the clamps that cripple life in the West Bank and Gaza too. And though a few of the 5,000 or so political prisoners in Israeli jails are to be released, other suspects continue to be arrested, making up the numbers.

Mr Sharon may have been holding back on such “concessions” so that he can present some, like gifts, to Mr Bush. Well and good. It is a much tougher proposition when the call on Israel goes beyond humanitarian gestures, to the kind of confidence-building measure that would confirm the prime minister's commitment to a genuine two-state solution. But if the hope is for real peace, rather than temporary non-violence, Mr Sharon must cease the process under which, in the name of constructing a “security fence”, Palestinian land is being steadily, relentlessly chewed up (see article). Will Mr Bush feel

inclined to tackle him on this? He should.

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Japan

To arms

Jul 24th 2003
From The Economist print edition

Japan is starting to take its security responsibilities seriously. High time too

EPA

JAPAN'S constitution forbids it to maintain an army: but it has 240,000 men under arms. They are not soldiers, you understand, but members of the land, sea and air “self-defence forces”. Japan does not have tanks—those would sound too much like the sort of thing an army might have. But it does have “speciality vehicles”, which look remarkably like, well, tanks. It does not have bombers, for much the same reason: bombers are primarily offensive rather than defensive weapons. But it does have “support fighters” that carry bombs. Japan is the second-largest contributor to the United Nations peacekeeping budget, and the only country that is certain to get a permanent seat on the Security Council if it is ever reformed. Yet it plays only a negligible part in UN peacekeeping operations. During the 1991 Gulf war, its contribution was financial and logistical, but not military; during the war on terror, it has been purely verbal: valuable in both cases, but not nearly enough. This is the strange world of Japanese security policy, almost 60 years after the end of the second world war.

Bluntly put, Japan's position in the world now requires it to shoulder a bigger burden, and do so more straightforwardly. Japan's prime minister, Junichiro Koizumi, has always understood this well enough. But, despite unprecedented personal popularity, he has moved slowly and with caution. His main achievement in the area of security to date has been the passage of a bill that would make it easier for the Japanese government to act swiftly in the event of an attack on Japanese territory: that is, in a purely defensive context.

Now this is changing. By the end of this month, and quite possibly by the time these words are published, he looks likely to have secured a much bigger objective: parliamentary approval to send about 1,000 troops to Iraq, to help the British and American occupation forces there. It will be the largest overseas deployment by Japan since the second world war, and, significantly, is not underwritten by a Security Council resolution (though one may yet come). The limitations of Japan's role are still clear: the soldiers will go only to areas that are nominally free of combat, and will only be used in non-combat roles, such as the transport of troops and ammunition. But they will be allowed to fire warning shots, as well as to return fire if fired upon. And this is only a first step. Reformers within Mr Koizumi's administration next want to see Japan award itself the right of collective self-defence, which means that its forces would be able to defend not just Japan and themselves, but their allies as well. At the moment, in the event of, say, an American spat with China, or a conflict with North Korea, Japan could do nothing to help its closest ally.

Many in Asia will see this as a bad thing. Japan's relations with its neighbours, and with China in particular, remain prickly even so long after the end of the war. Mr Koizumi's habit of visiting the

Yasukuni shrine, where the souls of war criminals, as well as of millions of ordinary soldiers, are enshrined has not helped, though some of the blame also has belonged to China's geriatric leadership, only now giving way to a generation with less personal bitterness. But change is becoming inevitable. America's decision to pull back its troops in South Korea from their forward deployment, and probably to reduce their overall numbers too, is forcing hard thinking in Tokyo. The daily barrage of nuclear intimidation from North Korea is exerting a profound effect on the opinions of people who were once committed to pacifism. Many in Japan still argue that significant changes to Japan's security stance require a revision of Japan's constitution—though it has shown itself capable of considerable flexibility in the past. But a revision, 60 years on, is nothing to fear.

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Business regulation in America

Gaming the rules

Jul 24th 2003
From The Economist print edition

Politicians should be kept out of regulation

REGULATION costs American business on the order of $1 trillion a year. A sum that big creates many opportunities for entrepreneurial politicians to market their rule-fixing skills to campaign donors. That is precisely why it is important to shield the business of regulatory policymaking from the latest whims exciting congressmen. Yet recently America's politicians have been showing alarming signs of, quite literally, usurping the regulators.

The latest meddling involves media deregulation. In May, the Federal Communications Commission (FCC), which oversees America's telecoms and media industries, modestly relaxed the rules restricting the ownership of television channels and newspapers. The FCC's main motive was to give more stability to the industry. The courts have challenged the FCC's previous rules, creating great legal uncertainty. Yet the changes prompted interested opponents to shout loudly about grave threats to diversity of opinion in America—and even to democracy itself.

This cause found a natural champion in Congress (what politician loves his local paper?). John McCain, for instance, has used his position on the Senate Commerce Committee to wage war on Clear Channel, a company whose radio stations broadcast Rush Limbaugh, a right-wing talking head who has in the past lambasted Mr McCain. This week the House of Representatives voted to overturn the FCC's decision to relax the rule limiting TV broadcasters to owning companies that serve, at most, 35% of the national market (the FCC's new rules would have raised this to 45%). The Senate is expected to pass a similar measure shortly. Only a presidential veto can now stop the reversal.

This interference fits a pattern elsewhere. In finance, telecoms, energy and even accounting, political meddling in regulatory policy seems to be on the rise (see article). In what might be characterised as a negative feedback loop, this meddling has been fed by, and has in turn helped to feed, a general impulse towards the re-regulation of business. Not long ago, the Federal Energy Regulatory Commission seemed sure in its mission to inject competition into America's energy business. Now, its commissioners have shelved further deregulation and spend time instead debating whether to allow California to tear up long-term electricity contracts. Similarly, the FCC's most recent revisions to its telecoms policy were altered at the last minute to “balance” their deregulatory thrust with changes that run the other way. Harvey Pitt, the former head of the Securities and Exchange Commission (SEC), suffered from political interference before resigning last year. Now Michael Powell, boss of the FCC, finds himself in a similar scrape—and he too may soon quit.

Independence days

Some critics blame the regulators for these troubles. Messrs Pitt and Powell have been widely berated for lacking basic political skills. But why should regulators be political at all? Once the broad legislation is in place, the job of detailed day-to-day regulation, which is both highly complex and technically demanding, is best done wholly free of political interference. A good analogy is with central banking: within a broadly agreed political framework, it works best when the detailed decisions on monetary policy are taken independent of any outside political pressures.

What is more, Mr Pitt at the SEC failed not because he was too independent but because he caved in to

political pressure when picking an unsuitable nominee to a key regulatory post. In similar fashion, Mr Powell has abruptly and clumsily re-regulated the radio industry because Clear Channel was attracting so much political heat. Both failures highlight the real problem: that regulators, far from being unduly immune to the business of politics, are not sufficiently independent of the politicians, whether in Congress or the administration.

The past decade has shown the clear economic and consumer benefits from deregulation. It has also shown that deregulation does not mean no regulation: for it to work, independent regulators are necessary. Yet George Bush has not been fighting to deliver, still less to extend the gains from deregulation. A veto of Congress's wilful overturning of the FCC's new media rules would be a start to making amends.

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Letters

Jul 24th 2003
From The Economist print edition

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American justice?

SIR – As the attorney representing the families of the 12 Kuwaiti citizens detained at Guantanamo Bay, I agree that the plans announced by the United States for military tribunals there are "Unjust, unwise, unAmerican" (July 12th). But officials have designated only six of the 680 prisoners at Guantanamo Bay for trials before military tribunals and indicated that only one or two dozen will be tried in this way. In a sense, they are the lucky ones for at least they will be afforded some legal process, no matter how inadequate.

The rest—many of whom American officials have acknowledged are innocent and were taken there by mistake—have been imprisoned and punished for more than a year and a half with no legal process whatsoever. They have not been charged, have not been allowed to meet or speak with a lawyer and, most importantly, have not been allowed access to any impartial tribunal, either military or civilian, to test whether probable cause exists for their detention. That is truly unjust, unwise and unAmerican.

Thomas Wilner
Shearman & Sterling
Washington, DC

SIR – A truly enlightened and temperate America would preserve the rights of defendants as insisted upon at the Nuremberg trials: an open, public trial; the burden of proof on the prosecution to establish evidence of specified crimes; production of evidence that could be scrutinised by the court; and the right to counsel, to confront accusers and to answer charges. No more than George Bush and Donald Rumsfeld would insist upon were they to face charges, say, of fabricating pretexts for war.

Ronald Marks
Toronto

SIR – Faith in the American legal system has eroded to such an extent that not even the president can trust that justice will be served should terrorists stand trial in American courts. In fact, most Americans will take solace from knowing that terrorists will not have access to a legal system where justice is so rarely served.

Thomas Keiser
Wexford, Pennsylvania

Rental period expired

SIR – You say that the development by Flexplay Technologies of a self-destructing DVD may "revamp" the video-rental market ("This movie will self-destruct", July 12th). It will do more than that. Video rental will become video purchase with retailers offering both "premium" discs that buyers can keep forever as well as the new product. Eliminating the need for the return of rental discs will eliminate the need for video-rental shops and the rental infrastructure altogether.

Roberto De Vido
Kyoto

The state of California

SIR – Your article on California's current problems focuses heavily on the ills of direct democracy and glazes over the problems of the alternatives ("Is the Golden State governable?", July 5th). Of course democracy is unstable, that is the very nature of it. And direct democracy even more so. But if political stability was the main goal of a nation, democracy is certainly not the best choice. Might we follow Cuba's lead?

You say one of California's biggest problems is referendum-imposed term limits. Are you suggesting that we admit our ignorance and fickleness, and let our moral and intellectual superiors—the Bushes and Clintons perhaps—lead us into the future? It sounds a bit too Straussian for me.

Adam Michael McNamara
Salem, Massachusetts

SIR – The initiative-style referendum process is indeed not without defect but there is a relatively easy fix. Most of the troublesome referendums appropriate money, cut taxes or make significant changes in spending or collection. The referendums of consequence, which tackle issues that politicians refuse to legislate on themselves, rarely have anything to do with money (at least directly). California should make it more difficult to place financial initiatives on the ballot (Ohio had this codified into its constitution). That way the best features of the referendum are kept without letting voters decide that they will not be taxed and how what money remains is spent.

James Moyer
Columbus, Ohio

SIR – You say that if Gray Davis were removed from office as a result of the current recall measure "without evidence of malfeasance, it would set an ugly precedent for representative government." Given that Mr Davis has taken California from a $12 billion surplus to a $38 billion deficit, how much more damage should its citizens allow him to do? Why not hold Mr Davis responsible for his bungling? It seems a concept long forgotten by politicians.

Hendrick Goller
Mt Lebanon, Pennsylvania

Making leaders

SIR – What the international community needs to do to help foster the emergence of better leadership in Africa is a crucial issue ("Now for Africa", July 5th). Incentive systems such as the Millennium Challenge Account are based on the false premise that leaders care about the welfare of their fellow citizens and therefore would want to take advantage of assistance to alleviate poverty in their countries. Most leaders are only interested in amassing personal wealth and power.

Realistically, nothing much can be done about the current generation of leaders. America and the rest of the world should therefore fund leadership programmes that would focus primarily on identifying brilliant, uncorrupted young people and providing them with the resources to enable them to become dedicated leaders committed to democracy, liberty and market-based approaches that will foster rapid economic growth.

Michael Isimbabi
Washington, DC

Few political differences

SIR – Lexington has put his finger, somewhat delicately, on an underlying reason why so many Americans are unable to affiliate themselves to either the Republican or the Democratic parties (July 12th). It is increasingly difficult to distinguish between the two. Both seem committed to wielding the heavy hand of government. The only difference is that the Democrats want government to get out of the bedroom and into the boardroom, and the Republicans want it the other way around. And now both seem to be meeting in the kitchen.

Arnold Brown

New York

Pint well taken

SIR – Shame upon you for using in-house amateurs, however experienced, to taste Uganda's Eagle beer ("The Eagle has landed", July 12th). It is a hazardous business best left to professionals: an awful lot of vile liquid had to be sampled before we arrived at our range of beers from around the globe. Other dangers include a beer from an American brewer arriving later in the year which is reputedly the world's strongest, an example of the development of "extreme" beers that command extreme prices.

Glenn Payne
Beer buyer
Safeway Stores
London

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Genetically modified food

Far less scary than it used to be

Jul 24th 2003
From The Economist print edition

Alamy

Genetically modified crops will neither feed the world nor wreck the planet. So what's all the fuss about?

Get article background

IN ROCHFORD, east of London, two dozen people gathered recently to discuss their hopes and fears about genetically modified (GM) food. The assembled housewives, pensioners and farmers listened politely to a handful of guest speakers, and then they fired off questions: How can you be sure that GM food is safe to eat? Aren't GM crops hurting the environment? Will GM feed the world's poor?

Such questions have been asked up and down Britain. The meeting in Rochford was one of more than 450 public gatherings in a month-long consultation exercise called “GM Nation?”. The exercise, which ended last week, is only one of several studies commissioned by the British government. Earlier this month, the Cabinet Office, a government department, published an assessment of the costs and gains of Britain embracing, or rejecting, GM agriculture. This week, a group led by the government's chief science adviser published a review of the scientific evidence of the risks and benefits of GM crops. Soon a committee will flesh out the guidelines issued by the European Commission this week on how GM and non-GM (particularly organic) agriculture can co-exist, and who should pay if one contaminates the other. Then in September the results of about 200 field trials looking into the effects of GM crops on the country's bugs and birds will be published.

The last time Britain saw such a flurry of interest in GM food was in 1999, when a series of events turned much of the population against “Frankenfoods” and drove the stuff from supermarket shelves. The upshot was a “voluntary” moratorium on the commercial cultivation of GM crops in Britain, a pause which the government has said it will reconsider in the autumn.

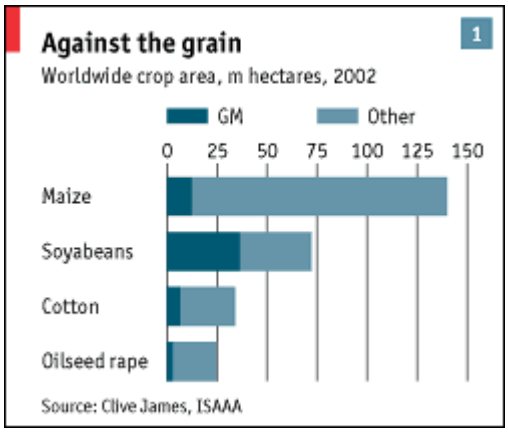
The results are of interest far beyond Britain. The battle over GM foods has pitted the world's main producers—America, Argentina and Canada—against the European Union and others that resist its spread. This may well culminate in a fully-fledged trade war at the World Trade Organisation (WTO) if America presses ahead with its complaint that the EU's five-year *de facto* moratorium is a scientifically unjustifed trade barrier.

Out in the field

At issue are two broad types of genetic modification, which account for 99% of the almost 59m hectares of GM crops in commercial cultivation. One, called Bt, takes a gene from a bacterium and puts it in plants to give them resistance to certain insects without the use of chemical pesticides. The other uses genes also from bacteria and gives plants resistance to particular herbicides, such as glyphosate.

The main GM crops—soyabeans, maize, cotton and oilseed rape—are now grown commercially in 16 countries and tested in a dozen more (see chart 1). GM commodities are also widely traded, even in the European Union which still imports several GM products, such as soya meal for animal feed. Spain actually grows some GM crops commercially.

Much of the resistance to GM food stems from concern over its potential risks to human health and the environment. This week's review of the scientific evidence in Britain concludes, as several other expert bodies have before it, that there is no evidence to suggest that today's GM crops are less safe to eat than conventional foods. In many countries, GM foods are already heavily scrutinised for nutritional content, toxicity, allergenicity and genetic stability before being allowed on to the market. While the British review is sanguine about today's GM foods, it also recommends more research and longer-term studies on future generations of the stuff.



The case for eating GM crops is far clearer than for planting them. In the late 1990s, opponents of GM technology predicted ecological catastrophe from introducing these “unnatural” creations into the landscape. One of their fears was that the pests which farmers most want to kill off, such as the European corn borer, would develop resistance to the Bt toxin in GM plants.

However, studies of Bt cotton in America and China have shown that, after seven years of commercial planting, the target pests are still as vulnerable to the toxin as ever. But this is no cause for complacency, says Bruce Tabashnik, an entomologist at the University of Arizona. He believes it is only a matter of time before resistance develops—as it has to every other pesticide ever tried.

Then there are worries about gene flow—the wafting of pollen or seed from a GM plant to an unmodified one, and the passing on of undesirable characteristics. This happens as a matter of course between conventional crops, so it should be no surprise that it happens with GM plants, says Allison Snow, a plant biologist at Ohio State University. The consequences depend on the circumstances. Gene flow from one field of GM maize to another may make little difference in the middle of Nebraska; a similar flow in, say, Mexico, home to thousands of wild relatives of the domesticated maize plant could have serious repercussions.

A further worry is over GM plants' potential to harm everything from microbes in the ground to songbirds overhead. America was in a flap four years ago when experiments suggested that GM maize could poison Monarch butterflies: field tests later suggested that such an event was highly unlikely.

Scientists do not have a clear view of the full ecological impact of GM crops, or indeed of conventional farming, says Angelika Hilbeck, an ecologist at the Swiss Federal Institute of Technology. For every study suggesting that GM crops can boost, say, insect numbers by replacing brutal chemicals with more environmentally friendly products, there is another showing problems for the birds and the bees.

On the whole, according to this week's review of the science in Britain, the GM crops that are now being grown commercially are no worse for the environment than conventional farming. Indeed, under proper management, some of them can be better for it. That said, there are limits to the extent to which the experience of, say, Saskatchewan can be applied to Somerset. Ecosystems and agricultural practices vary greatly around the world, and the review calls for much more research into the local effects of GM.

Sow what?

While biology can go some way to answering uncertainties about GM crops, the future of the technology lies with a more dismal science: economics. Crucial here is the demand for GM products along the food chain, from farm to fork. In America, there is certainly some home-grown resistance to GM food, but consumers are generally unperturbed by having GM crops in their backyard or on their dinner plates.

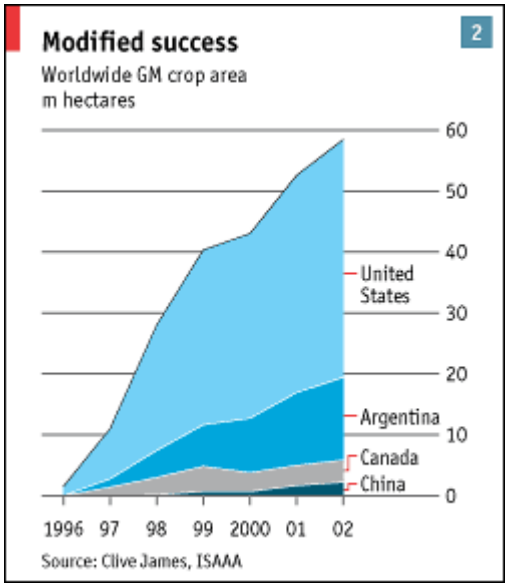
In Europe, opinion polls suggest that public attitudes towards GM food have mellowed from outright distaste at the end of the 1990s to cautious uncertainty. “The advocates of GM technology are wrong when they say that public resistance is based on a misperception of risk,” says George Gaskell, a sociologist at the London School of Economics. “Rather, it stems from an apparent lack of benefit.”

Four years ago, several big international companies, Monsanto among them, were promising consumers a brave new world of healthier, better-tasting GM foods. But it has been slow to appear. Today there are consumer-friendly GM crops in the works—tomatoes high in heart-protecting anti-oxidant molecules, for example—but it will be many years before they appear in a market near you.

Moreover, the firms in the business are not as robust as they once were. Monsanto and Syngenta, formerly part of profitable pharmaceutical companies, are now independent operations and no longer have the same deep pockets for GM research or for purchasing seed companies. Syngenta has shifted some of its focus to industrial applications of GM plants, such as producing pharmaceuticals, that might gain easier acceptance in Europe than GM foods.

This tolerance will quickly evaporate, however, if one slips into the human food supply. America has already had a couple of such scares. In one, a variety of GM maize, used for animal feed but not approved for human consumption, made its way into taco shells. Hundreds of millions of dollars-worth of processed food and raw grain had to be destroyed.

This failure to enthuse consumers comes as no surprise to Lawrence Busch, an agribusiness expert at Michigan State University. Historically, firms such as Monsanto and Syngenta, which had their origins in agrochemicals, saw farmers, not shoppers, as their main customers. So when they turned to biotechnology in the 1990s to help boost their flagging sales and offset high development costs, such companies focused on easy traits that would be of immediate interest to farmers, their traditional customer, rather than to food manufacturers or shoppers.



Most farmers who have tried GM crops since they first started to spread commercially in the mid-1990s like them, which is why acreages expanded by more than 10% last year. And this is despite the higher cost of the seed and the strict conditions that companies often attach to their contracts of sale. There is even a thriving market in smuggled seed in Brazil, where the government has not yet formally authorised commercial planting. Up to one-third of Brazil's soyabean acreage is GM, according to Tray Thomas, an agribusiness expert in Des Moines, Iowa.

The specific benefits conferred on farmers vary. In general, though, those who turn to, say, herbicide-resistant soyabeans, do not plant them for higher yields. GM versions are not much more productive than conventional varieties. Rather, farmers choose them because they are easier to manage, demand less weeding and take lower-cost, less toxic herbicides. Bt crops, on the other hand, can produce higher yields than ordinary ones, under certain circumstances. They also need less insecticide, which is better for health and, maybe, for the environment too.

Leonard Gianessi of the National Centre for Food and Agriculture Policy in Washington, DC, reckons that eight different commercially grown GM crops in America, from herbicide-resistant soyabeans in Minnesota to virus-resistant papaya in Hawaii, boosted American farm income by $1.5 billion in 2001. Studies in Argentina, China, South Africa and Spain have also shown that farmers can gain. On the other hand, Britain's Soil Association, an organic farmers' trade association and opponent of GM crops, can point to studies showing that farmers in America, at best, only break even from their use of GM.

The bottom line, says Michigan State University's Mr Busch, is that farmers generally see cost advantages from GM crops—or they would not keep planting them. But in its recent economic review, Britain's Cabinet Office noted that the financial benefits that might accrue to British farmers from planting, say, herbicide-resistant oilseed rape are unlikely to compensate for the lack of a market should their main customers shun the stuff. Indeed, having GM on the farm could add to costs throughout the food chain. New European rules on labelling and traceability, to come into force later this year, will demand further careful separation of GM and non-GM crops, and a detailed paper trail from field to

foodstore.

The rules will also require that the distinction between GM and non-GM be applied to animal feed and “derivatives”—such as soya oil—which appear in a wide variety of processed foods. When consumer-oriented GM foods reach the market, producers may welcome these new regulations as a way of singling out higher-value products. But in the absence of a premium for GM foods, they are seen by the food industry as an onerous extra cost.

What's in it for me?

The essential problem for GM foods is that farmer-friendly crops do not, at present, translate into comparable benefits further down the food chain. Archer Daniels Midland, one of the world's leading grain handlers, does not see a big difference between the price of GM and of conventional produce. Food manufacturers, such as General Mills, are equally sceptical about the advantage to consumers in GM food. At the same time, the message coming from some of Europe's powerful supermarkets is that they don't want to stock anything that they have to describe as GM.

For all their complaints about foreign opposition to GM crops, however, there is, as yet, little sign that farmers in America or Argentina are abandoning the technology in droves. Those who do, in order to cater to GM-wary markets, expect a premium. Non-GM soya exports to Japan, for example, command a premium of around 10%.

But Europe's resistance to GM foods is having an effect beyond its borders. In Canada, for example, there is a fierce row in the prairies over Monsanto's new GM wheat. The company claims that it will greatly assist farmers in weed control, thereby reducing farm costs. But the Canadian Wheat Board is advising farmers not to plant it, since much of their produce makes its way to export markets in Europe, which might be jeopardised if GM material were to sneak in. Countries from China to Zambia have also seized upon Europe's resistance to GM to justify their own import barriers. On the other hand, new markets are opening elsewhere to cater to GM-wary populations: one country's trade loss is another's golden opportunity.

Far from taking over world agriculture, GM crops represent less than 5% of world farm acreage. Hesitant markets, as well as scientific uncertainty, will continue to slow their spread in Europe and Asia. For all the extravagant promises of salvation, and the dire predictions of damnation, the past five years of public resistance have brought GM technology down to earth. Its future now lies in more focused applications in particular parts of the world. GM never did stand for Global Miracles.

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GM in developing countries

Ripe for research

Jul 24th 2003
From The Economist print edition

GM is one of many ways to fix poor countries' agricultural problems

Get article background

GEORGE BUSH believes that Europe's “unfounded, unscientific fears” of GM crops are hurting African farmers as well as American ones, preventing them from embracing biotechnology for fear of losing access to European markets. For their part, Europeans argue that many poor countries share their reservations about GM foods. They accuse America of using world hunger to further its own commercial interests in biotechnology.

Last summer, several African countries on the edge of famine refused to accept American food aid because it contained GM maize which, they argued, could have ended up being planted as seed. Last year, less than 5% of the world's GM acreage was in poor countries. But millions of farmers in China, India, Indonesia and South Africa are growing GM crops, mainly cotton, and other developing countries are field-testing GM plants.

The economic gains have been impressive for many small farmers who have taken the plunge. Studies in China, for example, show that from 1999-2001 farmers growing GM cotton earned roughly $500 more per hectare than those sticking to conventional varieties. Although the seed was more expensive, farmers used 80% less pesticide.

Opponents of GM food fear that by taking on GM crops, poor farmers will find themselves beholden to big biotech companies that will tie them up in complex contracts, and prevent them from saving and sharing seed by patenting the genes concerned. The so-called Terminator technology, which firms renounced after being accused of engineering it in order to stifle poor farmers' ability to replant seed from an existing crop, still haunts the debate.

Few of the GM plants now being sold by big biotech companies will make much difference to poor farmers. With their tiny plots and desperate need to raise yields, they do not need the sort of high-tech soyabeans carpeting the American mid-west. They need improvements in their staple crops, such as fungus-resistant bananas or more productive cassava. Some of these can come from conventional breeding, some through better farm management—and some from GM technology.

Although big companies spend billions on GM research, little of it goes into looking for specific ways in which GM crops might benefit poor farmers. Like their counterparts in the drug industry, firms do not see much of a market for products that sell only in poor countries. Nevertheless, the Nuffield Council on Bioethics, a British think-tank, points to more than a dozen GM crops in development, mainly in universities and with occasional corporate assistance, which could help poor farmers. They range from virus-resistant sweet potatoes in Kenya to drought-tolerant barley in Egypt and protein-enriched potatoes in India. From these little GM acorns, big GM oak trees may one day grow.

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Iraq, continued

But when will the others come back?

Jul 24th 2003 | TWENTYNINE PALMS, CALIFORNIA
From The Economist print edition

EPA

Jessica Lynch may be safely home and the Hussein sons out of the way. But an old worry has returned: is America's army big enough to deal with Iraq?

Get article background

GEORGE BUSH has finally had a good week on Iraq. Over the past few months, his approval ratings had slid to a point where rumours began to appear that Hillary Clinton might after all consider running against him next year (as opposed to waiting till 2008). Now, emboldened by the slaying of Saddam Hussein's two sons (see article), the administration is back on the offensive, with Mr Bush, Dick Cheney and Paul Wolfowitz all proclaiming in effect that a corner has been turned in Iraq, and that a calmer Middle East is next. Right on cue, Ariel Sharon, the Israeli leader, and Mahmoud Abbas, his Palestinian counterpart, are due in Washington.

Meanwhile, the papers have been full of pictures of another Palestinian. The procession of Private Jessica Lynch by Blackhawk helicopter and red convertible back to her home town of Palestine, West Virginia, was another fillip—as America's favourite war heroine returned home.

Is this too good to be true? Ms Lynch's own story would imply that it is. The original Rambo-ish tale of her fighting until she ran out of ammunition despite grievous battle wounds has dissolved into a much more opaque narrative, where the only points of clarity are that she was first captured by Iraqis and then rescued by Americans. Moreover, she is an exception—a soldier who has returned home.

Twentynine Palms, a dusty hamlet in the heart of California's Mojave Desert, home to the country's largest Marine base, has less to celebrate than Palestine. Along with the yellow ribbons that encircle the telephone poles, a “Welcome Home our Troops” banner hangs hopefully in the windows of the Western Saloon. Residents are especially proud that men based outside their town helped topple the famous statue of Saddam Hussein.

Yet they also know that it may be some time before they see those troops again. The biggest regional newspaper, the *Palm Springs Desert Sun*, has been running a sombre series of articles on one particular local marine, Tyler Blauvelt. Mr Blauvelt, who is 20, went out to Iraq full of boyish enthusiasm. Now he writes sad letters home: “I haven't received my mail for about one-and-a-half weeks now, which sucks...” Meanwhile, his mother waits, refusing to watch the television news as the casualties increase,

but with the telephone on the pillow as she sleeps. His father would have liked him back for their annual fishing trip on Father's Day. Like a welcome-home parade in Twentynine Palms, the trip has been postponed.

This disquiet is repeated in other military towns. Men from the Third Infantry Division have even appeared on television to complain about their extended tours. Then there are the near-daily reports of American combat deaths. These may not, as American commanders say, represent a “strategic threat” militarily, but they are certainly a greater threat to Mr Bush's popularity than arcane arguments about what he said about uranium and Niger.

It may be that what America's top general in the region describes as a “guerrilla” conflict cools down after Uday and Qusay's deaths. But even if the killings do slow down, the president and his administration will still have a lot of explaining to do about the troops in Iraq.

Their first problem is largely one of presentation. There are lots of good reasons why Mr Bush has been keen to give the impression that America's sojourn in Iraq will be short—not least the need to persuade Iraqis and others in the region that his country does not intend to colonise it. But all the talk of coming home as soon as possible has left many Americans unprepared for the dangerous slog of reconstruction. In retrospect, Mr Bush's stunt landing on an aircraft carrier, from which he declared the end of “major combat operations”, may not have been so wise.

This error in presentation has been compounded by a military one: even taking into account the removal of the young Husseins, there are not enough peacekeepers in Iraq. Of course, similar misgivings about there not being enough troops to win the war proved unfounded. But the worriers (including the then head of the American army) who predicted that the post-war stabilisation would require more soldiers than have so far been committed look more likely to be vindicated.

Mr Bush's people are clinging to the idea they were blindsided by a freak occurrence. The near-instantaneous demise of the old regime, they say, created an unpredictable security vacuum and the disorder in Baghdad. Yet even America's allies think the Pentagon should have been prepared for both the lawlessness and the ongoing low-level insurgency; and they add that it has too few troops there now.

The result of these errors is that Mr Bush needs to find bodies to augment or replace the Americans already out there. Seeing that the current ratio of Americans to other peacekeepers is 11:1, he would dearly love the reinforcements to come from other countries. On July 23rd, he duly urged his allies to help out, but the president is still unwilling to push a new UN resolution that some other countries want before committing troops.

Surely, the world's hyperpower can replenish its 147,000 strong Mesopotamian garrison by itself? Apparently not. Of the army's 490,000 men and women, 362,000 are deployed in 120 countries, including Afghanistan and South Korea. On July 23rd, the Pentagon announced a complicated “rotation” for Iraq stretching into next year. It will need to deploy the part-time national guard and various untested troops. It also confessed it needed “more infantry...more military police...and more civil-affairs [specialists]”.

Some congressmen are now pressing for an increase in the size of the armed forces (though the prospect of a year-long tour in Iraq is unlikely to be much of a draw). But that old worry about military “overstretch” has returned. America may be able to fight wars around the world; keeping the peace is another matter.

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Intelligence failures

They didn't tell each other

Jul 24th 2003 | WASHINGTON, DC
From The Economist print edition

Some pre-September 11th stumblings

ON JULY 24th, as *The Economist* went to press, Congress was due to release the most comprehensive investigation to date into the events leading up to September 11th. The nearly-900-page report—a declassified version of last year's joint report by the House and Senate intelligence committees—is the product of intense debates between congressional staff, intelligence officials and the Bush administration.

On the basis of the copious leaks that have dribbled out so far, anyone looking for a smoking gun—or suggestions that the terrorist attacks could have been avoided—will be disappointed. But the report does throw some light on the failure of America's intelligence services to share vital information in the run-up to September 11th.

The most important detail, first revealed by *Newsweek*, is that the FBI had a long-time informant in San Diego who had “numerous” contacts with two of the hijackers, Khalid Almihdhar and Nawaf Alhazmi, including renting a room to them. But the informant found nothing suspicious about their behaviour; he did not even bother to tell the FBI their full names. And the CIA failed to tell the FBI that it had evidence linking the two men to terrorism: both attended an al-Qaeda meeting in Malaysia in January 2000.

About a month before September 11th, the CIA at last got round to including the two men's names in a communication to the FBI, saying they were suspected terrorists who might well be in the country. But FBI agents in Washington sent the names only to the bureau's counter-terrorism offices in New York and Los Angeles—and the full names were not passed on to agents in San Diego until the hijackers were identified from passenger manifests after September 11th.

The report also throws out a tantalising detail about a Saudi called Omar al-Bayoumi. Mr al-Bayoumi met the two hijackers in a restaurant in Los Angeles, provided them with contacts in the Muslim community in San Diego, and even wrote a cheque for the deposit on their apartment. Mr al-Bayoumi (now living in Saudi Arabia) had ties to officials at the Saudi Arabian consulate in Los Angeles and, according to one FBI source, was almost certainly “an intelligence officer for Saudi Arabia or another foreign power”.

And so? Something has been done to make intelligence agencies pool information. The Department of Homeland Security brings bureaucratic clout to the struggle to stop terrorism. But America still does not possess an internal security service on the model of, say, Britain's MI5, and the security world is still riven by turf wars.

The report points to another problem: America's continuing hesitation to speak openly to Saudi Arabia, even though 15 of the 19 hijackers came from that country and the Saudi establishment continues to finance Wahhabi extremism around the world. The original document contained 28 pages that reportedly criticised the Saudi government for not properly tackling Muslim extremism. They have been blacked out of the published version.

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Battlefield tours

Glory days

Jul 24th 2003
From The Economist print edition

One day the troops may want to go back to Baghdad—on holiday

ON JULY 27th, 50 years to the day since the three-year-long Korean war ended, 22 elderly American ex-servicemen and their spouses will gather in a hamlet called Panmunjom, where the ceasefire was signed. They will then head along the demilitarised zone (the DMZ, as they call it) to take a distant look at outposts such as “T-Bone Hill” and “Alligator Jaws”, where their comrades died under Chinese and North Korean fire. You may think a mere glimpse of a piece of territory still cut off by barbed wire would be rather depressing. But these days battlefield tours are a booming business. America now has a total of 26m veterans, mostly from the second world war, Korea and Vietnam.

California Pacific Tours, which organised this weekend's jaunt to the DMZ, points out that Korean-war veterans have reached a prime touring age. In their late 60s and 70s, they are retired and relatively rich. There are also plenty of second-world-war veterans still around. Teenagers who fought in Normandy or at Iwo Jima can be in their fairly spry 70s. Colonel Warren Wiedhahn, of Military Historical Tours, says that such men are already planning for the 60th anniversary of D-Day next June, and will bring their children and grandchildren with them. Mr Wiedhahn, who served in Korea and Vietnam, calls Steven Spielberg's 1998 film “Saving Private Ryan” “the best thing that ever happened to us”.

The biggest increase in bookings, admittedly from a low base, is for trips to Vietnam. Many Americans who fought there recoil from the thought of going back. But others have got to an age when their interest in that period of history is reviving, their children have grown up, and they are free to return if they want to. Many do. Jerry Landman of Nine Dragons, which specialises in Vietnam, says his company takes about 1,200 veterans to Vietnam each year—roughly 20 times the figure for 1994 (the year America lifted its trade embargo on Vietnam).

Doing business with greying veterans is risky. The SARS epidemic hit bookings for China, where American marines served in the late 1940s. But veterans are a hardy lot—“they don't give a damn about a little terrorism,” says Mr Wiedhahn—and things are bouncing back. Cold comfort perhaps to weary soldiers now in Iraq. But 50 years on, who knows, they may be taking their families to relive the Battle of Baghdad.

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Illinois's Senate seat

Vote for a turban and a beard

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From The Economist print edition

The Sikh knocking at the door of the Senate

The new Sikher

WITH Lake Michigan sparkling in the distance and long beards flapping in the evening breeze, they clutched their turbans or ties and vowed to unite behind Chirinjeev Singh Kathuria. An assembly of Sikhs and Hindus and even a token Muslim set aside their differences and turned out on July 22nd on the roof of a posh downtown high-rise to endorse the first American from the Indian subcontinent ever to run for the Senate.

It is not going to be easy for Mr Kathuria, a millionaire Sikh businessman and a Republican. He remembers the insults he faced in airliners and on street corners after the terrorist attacks of 2001, when his Sikh turban and beard got him mistaken for a Muslim. He still carefully keeps an American flag pinned to his lapel.

There is also the fact that he is a Republican. Grover Norquist, a Republican anti-tax campaigner with influential friends in the White House, claims that “Indian-Americans are natural Republicans and natural conservatives.” They are on the whole well-educated and well-to-do; they respect family values, and like working for themselves. Bobby Jindal, a young Indian-American, is the leading Republican candidate for the governorship of Louisiana. Still, about 70% of them voted Democrat in the 2000 election.

The Indian-American community more than doubled in size in the 1990s, and now totals over 1.6m. That makes it America's third-largest Asian group. Mr Norquist and Karl Rove, George Bush's main strategist, have urged their party to embrace Muslim-Americans and Americans with roots in other parts of Asia. At the moment all seven Asian-Americans in Congress—five in the House and two senators—are Democrats.

In Illinois, Mr Kathuria faces long odds in the competition to succeed the retiring Republican senator, Peter Fitzgerald. He is one of five Republicans who are already running for the party's nomination in the primary election in eight months' time. The fortune he built in business, while impressive, makes him just another millionaire Republican. A lot of people, if they mention him at all, stumble over his name. And Illinois includes not only the ethnic smorgasbord of Chicago but also a lot of farmers who wouldn't know a Sikh if he landed in their cornfields.

Mr Kathuria, who is still only 38, remains undeterred. He is looking for votes not just among the state's Indian-Americans (there are only about 125,000 of them) but among other Asian-Americans, who altogether make up 3.4% of the population. He hopes that voters will remember him for his beard and turban when his rivals are still a bit of a blur.

But a striking appearance and the immigrant vote will not suffice in the rough-and-tumble world of Illinois politics. Noting that conservatives usually dominate that state's Republican primary, Mr Kathuria announced his candidacy at a conservative forum. He sticks to the general conservative line—low taxes and close-knit families—and drapes himself in the cloak of the American dream: an immigrant made good.

With medical and business degrees from Brown and Stanford universities, a period working on international health issues and a series of business ventures, he can claim some experience. He founded part of an internet firm that went public for $2.9 billion in 2000. He was involved with MirCorp, the company that sent Dennis Tito, the first space tourist, into orbit in 2001. Mr Kathuria, who himself

applied to be an astronaut, says he too will go into space one day. An ever-hopeful bachelor, he once dated a former Miss India.

Enough to win the wary hearts of Illinois's voters? Mr Kathuria is more than a colourful sideshow. He talks fluently to farmers about the global agricultural market and tells small businessmen that he understands their problems. He has ideas on health-care policy and space-based defence. The state's Republican Party has not yet backed any particular candidate. The White House's influence could matter. Does Mr Rove really want to chase the Asian vote? Or is it too risky to leave a crucial Senate seat to a first-time candidate whose nickname is Baboo?

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About sponsorship

Day-labour centres

An answer or a problem?

Jul 24th 2003 | PHOENIX
From The Economist print edition

Putting illegal immigrants to work

IT IS past noon, and the four canopies and rudimentary misting system at the Macehualli Work Centre in northern Phoenix barely provide relief for the 40 Latino men still waiting to be hired for a day's work. Yet these “day labourers” are happy not to be standing outside, where the temperature is 40°C. And for this they should be grateful to the taxpayers of Phoenix, who stumped up $120,000 to build the centre—despite the fact that most of the workers in it are probably illegal immigrants.

Nobody knows how many day labourers there are in the country. In 2001, the Labour Department reckoned some 260,000 people waited on street corners for jobs every day. But attitudes to them are changing. Twenty years ago, police and immigration officials, urged on by local politicians and residents, would raid places where people looking for casual work were known to gather. Now, almost ten years into the North American Free-Trade Agreement, a gentler attitude has taken over.

The first organised day-labour centres began appearing in California in the 1980s. There are now at least 100 of them, mostly run by community-based organisations. The first two taxpayer-funded ones were set up in 1989 in North Hollywood and Harbour City. Another pioneer was Austin, Texas, which still spends $250,000 a year on its centre. Dozens of other city councils have followed suit.

Why encourage people to break the law? “People are finally recognising us as a need for the economy,” claims Antonio, who plays his guitar with two other men while he waits at Macehualli. He has been in America for 30 years. His wife is an American citizen. So are his four children, two of whom are in college. He prefers to wait for work at the centre, not just because of the camaraderie and shade, but because of the greater security it provides.

With their poor English and questionable legal status, day labourers have often been at risk of exploitation, injury and even death. The alternative to an organised centre is to wait on the street corner, take whatever work you are offered, and not know if you'll get paid.

At Macehualli, organisers provided by a charity called Tonatierra ensure that everyone is paid at an agreed rate—currently averaging $8 an hour—and comes back safely. Some 150 people come each day looking for work, many when the centre opens at 5am. On a good day three-quarters will find something, mostly in construction or other labour-intensive industries like palm-tree trimming.

The advantages for the day labourers are obvious. But what about those affected by their trade? Nowadays local trade-union branches are less likely to complain about day labourers stealing jobs and lowering wages, and more likely to see them as potential recruits. Unions do not have to report illegal immigrants, and they can remind day labourers that, even if they are illegal, they may still be eligible for wage and safety protection.

For Phoenix's politicians, the main advantage is that the system makes an underground trade legitimate. There had been complaints from local people about day labourers loitering on corners, committing crimes and scaring customers away from local businesses. “With this centre, dignity has returned to the neighbourhood,” says Keenan Strand, owner of the McDonald's around the corner from the site. He notes that, since the centre opened in February, his burger-joint's sales are running $89,000 above last year's figure.

Others are less impressed with the Macehualli centre. Some angry locals have launched a campaign to recall the local city councillor, Peggy Neely, saying the centre encourages illegal immigration and stigmatises a neighbourhood. “The federal government is spending millions of dollars for border guards,

but the city of Phoenix is paying to help these workers," says Mel Marcus, whose business faces the Macehualli centre.

But for America's border cops chasing undocumented workers is less important than looking for foreign criminals. "Spot enforcement" raids have all but stopped. No municipality or day-labour centre has been held accountable for the illegal activity of someone hiring an undocumented worker. If the economy were to worsen further, the fears of people like Mr Marcus would surely spread. For now, most people seem to think the workers are better off in the shade than on the streets.

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The Do Not Call Registry

A new internet democracy?

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It appears that the land of the hard sell does not like it after all

IT HAS been one of fastest commercial rebellions of all time. Since the National Do Not Call Registry was opened in late June, Americans have registered more than 27m telephone numbers. Any telemarketer who rings up one of those numbers after the system starts on October 1st will face fines of up to $11,000 per call. The Federal Trade Commission (FTC) expects 60m residential phone lines—roughly a third of the total in America—to be registered within the first year.

The Do Not Call list is an odd mixture of technophilia and technophobia. It is certainly a sign of the potency of the internet; around 80% of the don't-call-me numbers were registered online. Yet it is also a shriek of fury against the invasiveness of modern marketing—and one the president understands. George Bush, whose administration is usually thought of as staunchly pro-business, inaugurated the measure at a White House ceremony.

Telemarketers are an easy target. They place around 65m calls a day, few of them welcome. The business, which brought in $100 billion in sales last year, was given a spurt in the late 1990s both by falling phone costs and by the introduction of computerised “predictive diallers”. These dial lots of phone numbers at once and shunt aside disconnected lines, faxes and answering machines. Once the system works out that it has a live person on the line (“Hello? Hello?!”), it transfers the call to a salesman—or, infuriatingly, hangs up if none is available.

This simple procedure has increased the time operators spend talking to a human from 20 minutes per hour to almost 50 minutes, according to the FTC. But it had one small hitch: it drove customers mad and led to the Do Not Call Registry.

Hitherto, telemarketing has been regulated by a toothless 1994 law that allowed individuals to “opt out” of calls only on a seller-by-seller basis. In 1999, the FTC announced that it was updating this law, and would consider the policy of a few states that had Do Not Call lists. There was an outpouring of support for the idea (once again largely through the internet). Some 64,000 comments, few of them friendly to the telemarketers, were submitted to the FTC, the most the agency has ever received on any proceeding.

The Direct Marketing Association and the American Teleservices Association, which represents call-centre operators, have filed lawsuits arguing that the list restricts First Amendment rights to free speech. The first body claims that the telemarketing industry, which supposedly employs 4m Americans, will now see its revenue fall by between 25% and 50%.

Rather than worrying about the telemarketers, most Americans seem to want the next target to be internet spammers—the pests who send you e-mails offering cheap Viagra, dodgy loans and longer manhoods. “Telemarketers and spammers invade most Americans' homes over the same twisted pair of copper wires,” says Gregory Staple, a communications lawyer based in Washington, DC. “People may begin to ask more loudly why the government protects them from one form of intrusion but not another,” he adds. Half a dozen anti-spam bills are before Congress; more than half the states also have bills of their own pending.

Would it were so easy. To begin with, the courts see a difference between telephonic and virtual communication. On June 30th, California's Supreme Court refused to apply state trespass law to unsolicited e-mails. The case was prompted by a former Intel employee who sent e-mails that criticised the company's labour practices to thousands of staff members. The court ruled that an unsolicited message is not a trespass just because it is unwanted.

To find a way round this legal difficulty, anti-spammers are looking at the various privacy laws that allow Americans to limit the amount of personal information about them (medical records and the like) that is made public. In theory, Congress could grant e-mail users a limited right to control the access to their e-mail boxes.

But the legal problems are overshadowed by the practical ones. The phone system has national regulators, licensed operators, documented subscribers and a network that keeps track of every communication. The internet lacks all these things. Spammers can mask their origins, hijack unsuspecting computers to relay e-mails, and then disappear back into cyberspace.

And the winners from all this? The first are the companies that specialise in targeted consumer marketing. Hitherto, the low cost of mass telemarketing has made their services seem expensive. As the number of people willing to accept telemarketing messages becomes smaller, companies will have to invest more to raise the likelihood that the approach will lead to a sale.

The longer-run winner, just possibly, could be virtual democracy. The Do Not Call list is one of the first examples of Americans using the internet to set public policy in the way that the cybergurus have long predicted (to no avail). Coincidentally, the internet is also playing a hefty role in two other current political phenomena—the attempt to recall Gray Davis as governor of California and Howard Dean's insurgent campaign for the Democratic presidential nomination. And there has been a huge e-mail campaign opposing the Federal Communications Commission's attempt to loosen media-ownership restrictions. The Do Not Call movement could just be the start of something rather interesting.

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In memoriam

America's debt to Topsy

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An elephant who gave her life that others might die

NOT for her a mute inglorious posterity. A century after her death, her legacy to science, and to America, has received the recognition it deserves. A memorial to Topsy the elephant has been erected near the site of her execution.

In these more enlightened times, she might well have got off on grounds of provocation. Topsy was a ten-foot-high, twenty-foot-long Indian elephant. She had been employed by a circus, but ended up helping with the construction of the theme park at Coney Island. She was said to have killed three men, but her last victim, at least, brought on his demise by feeding her a lighted cigarette. Nevertheless, Topsy was condemned to death. The idea of an elephantine hanging was opposed by animal-rights activists (though another homicidal elephant, Murderous Mary, was indeed hung in Erwin, Tennessee, in 1916).

Enter Thomas Edison, inventor of the light bulb. Edison was determined to prove that the alternating-current electrical system developed by George Westinghouse, his rival, was fatally dangerous. To that end, he had been electrocuting farm and domestic animals for years. The opportunity to fry an elephant was a godsend.

Around 1,500 spectators turned up on a cold January morning, lured by the novel combination of death, an elephant and electricity. Mercifully, Topsy died extremely quickly, and without a trumpet, which may have had something to do with the carrots laced with cyanide that she had been fed.

“It is a bit of a shameful moment in Coney Island's history”, says Gavin Heck, the brains behind the memorial, unveiled last week among the antique bumper cars and distortion mirrors in the Coney Island Museum. Mr Heck has also commemorated Topsy at Coney Island parades, most recently with a float depicting her resurrection.

But that is not the end of her legacy. As part of Edison's campaign to debunk his rival, he had lobbied New York to introduce electrocution—by alternating current—for human executions. In 1903, debate still raged whether the chair constituted cruel and unusual punishment, early uses of it having produced messy results. Big Topsy's quick death helped to settle the argument. Electrocuting elephants is now considered inhumane; but it's fine for humans in ten states.

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Lexington

Right young things

Jul 24th 2003
From The Economist print edition

A youthquake that is helping George Bush

IN WOODY ALLEN's musical comedy, “Everyone Says I Love You”, one young character suffers from a terrible affliction: compulsive conservatism. He annoys his decent (ie, liberal) parents by calling for smaller government or extolling the latest article in the *National Review*. Everything ends happily, however: the parents discover he is suffering from a brain tumour. The tumour is removed, and with it goes the youth's annoying politics.

These days more and more young Americans are suffering from a similar affliction. This week Washington saw two jamborees for young right-wingers: a National Conservative Student Conference, put on by the Young America's Foundation, and a National Convention of College Republicans. Hundreds of young conservatives flooded into the capital to listen to their heroes (including a wrestler called Warrior), to learn how to identify liberal textbook bias, to visit the White House, and to watch Karl Rove receiving the Lee Atwater Leadership Award.

George Bush's presidency is producing a tremor similar to the Reagan youthquake of the 1980s. The College Republicans have tripled their membership in the past three years, increasing their chapters from 409 to 1,148 and recruiting 22,000 new members in 2002 alone. They now have more than 100,000 members, many in the most unlikely places. At the University of California at Berkeley, there are now 500 Young Republicans and a conservative newspaper, the *California Patriot*. At a recent convention of Californian Young Republicans in Berkeley (entitled “behind enemy lines”), several hundred enthusiasts marked the 34th anniversary of the People's Park riots by descending on the park to mount a noisy display of patriotism (awakening the local homeless from their mid-day naps in the process). They waved flags, chanted “USA” and sang the “Star-Spangled Banner”. “Like the marines rolled into Baghdad a few weeks ago to liberate the city, we rolled into Berkeley ready for a fight,” as one put it.

All this coincides with a general rightward shift in young people's views. Bob Dole lost the 18-29-year-old vote by 19 percentage points; Mr Bush lost by two points. Students have been sceptical about bossy governments for years. Now they are increasingly sceptical about the “Ab Fab” values of the 1960s generation—particularly in regard to casual sex and abortion—and increasingly enthusiastic about America's use of military might. A poll by Harvard University's Institute of Politics in April found that three-quarters of students trusted the armed forces “to do the right thing” either all or most of the time. In 1975 the figure was about 20%. Another poll, by the University of California at Los Angeles, found

that 45% of freshmen supported an increase in military spending, more than double the figure in 1992.

Why this upturn in conservatism? One reason is a healthy desire to tweak the noses of people in authority. America's academic establishment is so solidly liberal that Naderites easily outnumber Republicans. The leftists who seized control of the universities in the 1960s have imposed their world-view on the young with awesome enthusiasm, bowdlerising text-books of anything that might be considered sexist or racist, imposing draconian speech codes and inventing pseudo-subjects such as women's studies. What better way of revolting against such illiberal claptrap than emulating the character in Mr Allen's film?

Another reason is September 11th, which not only produced a surge of patriotism but also widened the gap between students (who tended to see the attacks as examples of evil) and Vietnam-era professors (who agonised about what America must have done wrong). The Harvard Institute of Politics found two-thirds of students supporting the war in Iraq. Pro-war groups sprouted in such liberal campuses as Brandeis, Yale and Columbia. At Amherst College many students were noisily furious when 40 teachers paraded into the dining hall with anti-war slogans.

A third reason is that American conservatives devote a lot of energy to recruiting the young. The Intercollegiate Studies Institute, the Young America's Foundation and the Federalist Society are out organising. Conservative foundations finance conservative newspapers and provide scholarships for right young things (one conservative impresario compares funding young conservatives to building a wine collection). The Heritage Foundation provides internships for 100 students a year.

And they matter

In 2000, the Republicans discovered that they could no longer rely on their air superiority (ie, paid television advertising) to win elections. They needed troops on the ground. In 2002 College Republicans (together with gun activists) played the same sort of role in the party that trade unionists and blacks have long played in the Democratic Party. They boosted turn-out and harassed opponents. Norm Coleman, the new senator for Minnesota, attributes his victory to College Republicans.

These footsoldiers also represent the future of the Republican Party. One reason why Britain's Conservative Party is in such a sorry state is that the average age of its members is almost 70. The young conservatives who crowded into Washington this week suggest a sprightlier future for the Republicans. In the 1970s and 1980s the likes of Karl Rove and Grover Norquist turned the College Republicans from a social club into a well-oiled political machine. Their successors continue to fine-tune the machine: Scott Stewart, the group's chairman since 1999, has increased its operating budget from $250,000 a year to $1.4m.

These young people are changing the party as well as revitalising it. They are middle-class and hard-working—a long way from the comfortable preppies who used to typify young Republicanism (such as the young Mr Bush). And they usually take a tolerant approach to subjects such as race and homosexual marriage. Whatever the short-term prospects of the Republican Party, its long-term future looks good.

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About sponsorship

Mexico's economy

The sucking sound from the East

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From The Economist print edition

AP

Does Mexico really want to move up the development ladder?

Get article background

DELPHI, a maker of car-parts which was once part of General Motors, is the largest foreign-owned manufacturer in Mexico, with 55 factories. It is especially proud of its research and development unit at Ciudad Juárez, on the northern border. Not only is this the largest of 31 such centres around the world, but it has developed 50 American patents, with others pending. The mainly Mexican workforce is proof, it is said, that the country can compete in high value, high-tech businesses. No wonder that everyone from President Vicente Fox down has posed for photos with Delphi, eager to show that Mexico is at the cutting-edge of the world economy.

But there is now another side to the Mexican economy, one of quiet desperation at the continuing haemorrhage of jobs and factories. In Chihuahua state, where Juárez is, 7% of manufacturing jobs went between January and April 2003. Since the mid-1990s, the manufacturing plants of the northern states have been an engine of Mexico's rapid economic growth. Their stagnation is felt in the poorer south. According to official figures, the national unemployment rate rose to 3.2% in June, up from 2.4% a year ago. Even Volkswagen, seen as a bellwether for Mexico's economy, recently said that it would cut output at its giant plant at Puebla. Some 2,000 jobs may go there.

Optimists, who include government spokesmen, argue that these problems are largely cyclical. Mexico's close links to the United States' economy through the North American Free-Trade Agreement (NAFTA) mean that just as it benefited from the previous boom, it is now suffering from the slowdown across the border. Take Delphi, whose Mexican plants sell almost exclusively to North America: having peaked at 81,000 in July 2000, its Mexican workforce fell to 68,000. With demand picking up, the number now stands at 70,000. So all Mexico has to do is wait until the behemoth to the north is back in rude health?

No, say the structural pessimists who are now as numerous as the cyclical optimists. Their view can be summed up in one word: China. In the past two years, it has become painfully clear that China is the favourite destination for the labour-intensive manufacturing that Mexico specialised in for the past three decades. The “sucking sound” of jobs going south that Ross Perot, an American presidential candidate, feared would be the consequence of NAFTA is now being heard from the east by Mexicans. With foreboding, they note that China is poised to overtake their country as the United States' second-largest

trading partner after Canada.

The problem is simple. Labour costs in China, converted at the country's artificially low exchange rate, are about a quarter of their level in Mexico. The result: about 300 manufacturing plants have moved from Mexico to China in the past two years, reckons the Labour Ministry. Especially affected is electrical assembly. Those plants that stay have cut wages.

Optimists counter that foreign direct investment in Mexico has nevertheless held up well. Mexico still ranks second (after India) in its attractiveness as a location for back-office paperwork, according to an index compiled by A.T. Kearney, a firm of management consultants. Its location, right next-door to the world's biggest market, is still important for firms such as Delphi. And American businessmen say that Mexico's English-speaking, American-educated managers are easier to deal with than the Chinese. Scientific Atlanta, a maker of broadband cable equipment, has moved some operations back to Mexico after unhappy experiences in China.

But the structural pessimists note that Mexico's traditional advantages are rapidly being cancelled out. Not only is Mexican labour being undercut, but so is its privileged access to the American market. China has joined the WTO, and the United States is negotiating a free-trade agreement with five Central American countries.

The real problem is that Mexico has done nothing to offset the erosion of its competitive advantages by attacking its disadvantages. Because of a state monopoly, energy costs are at least 20% higher than in competing countries. Because of the private near-monopoly of Telmex, telecoms costs are much higher too. Mexico's transport network remains so bad that Ricardo Haneine of A.T. Kearney estimates that proximity to the United States now yields an advantage over China of no more than five cents for every dollar of product. Complicated labour laws also add to costs. Don Michie, of NAFTA Ventures, a consultancy, estimates that these raise the average hourly cost of labour from $3 to $5.70. Businessmen also gripe that manufacturing is unduly taxed, to compensate for tax evasion in the rest of the economy.

Not surprisingly, Mexico is dropping steadily down the international league tables of competitiveness. In one ranking, that of the World Economic Forum, it slipped to 45th place last year. That shows up, too, in the relatively few links between the export manufacturing plants and the rest of the economy. Labour aside, only about 1% of the inputs of the export plants is produced in Mexico.

With an income per head of around $6,000, Mexico is no longer a poor country, and it is not surprising that low-wage jobs should move elsewhere. The problem is that because of the lack of skills of its workers, Mexico is ill-placed to replace them with better jobs. Tim Bennett, of the American Electronics Association, a trade group, argues that Mexico is already years behind China in its efforts to attract higher-value manufacturing. Mexico produces far fewer graduate engineers than China, and has a poor record in training in information technology, for example. Because of its lack of investment in education, Mexico now combines high costs with relatively low skills. The Delphi plant at Ciudad Juárez is an exception, not the new norm.

Mr Fox was elected on a promise of reforms aimed at addressing many of these shortcomings. He has been thwarted by his lack of a congressional majority. His party's defeat in mid-term elections this month means that reform may have to wait another three years. By then, Mexico is likely to have slipped even further down the development ladder. The politicians have been warned.

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Music in Latin America

Sugar and spice

Jul 24th 2003
From The Economist print edition

The passing of an icon

AFP

A monument to more than hairdressing

TENS of thousands of fans turned out in New York this week to bury Celia Cruz, the queen of salsa music, who died on July 16th aged 77. Her life had multiple meanings. She was a singer of rare quality and panache—and of expressionist costume. Born in poverty, she became the lead singer of Cuba's greatest dance band, La Sonora Matancera. She fled Fidel Castro's revolution, which made her a heroine to fellow-exiles in Miami. But she was above all a “Latin American icon”, as Gloria Estefan, a younger Miami-Latina crooner, put it.

Latin music has achieved extraordinary worldwide success in recent years. But much of it is resolutely local: Mexico has its *rancheros*, Colombia its *vallenato*, Peru its black and Andean music and so on. Almost alone, salsa spans the region (Brazil excepted), and so did Ms Cruz and her trademark cry of *azúcar!* (sugar!). Her death commanded headlines from Mexico to Argentina—as well as in that emerging Latin American nation, the United States.

Salsa's success also testifies to the enduring appeal of *son*, the dance music of Batista's Cuba of the 1950s from which salsa derived. *Son* was “rediscovered” by the gringos in the form of the Buena Vista Social Club, whose doyen, Compay Segundo, also died this month. It had been long neglected in Cuba (though it was remembered elsewhere in Latin America). Even so, Mr Segundo had remained loyal to Mr Castro's revolution. In Cuba, he was given a hero's funeral, while Ms Cruz's death was all but ignored there.

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Colombia's conflicts

Punish or pardon?

Jul 24th 2003 | BOGOTÁ
From The Economist print edition

Making peace with killers

HIS predecessor spent three years trying and failing to make peace with Colombia's largest rebel army, the left-wing FARC guerrillas. President Álvaro Uribe hopes for better luck with the right-wing paramilitaries of the United Self-Defence Forces of Colombia (AUC), who are bitter foes of the FARC. Last week, his government signed an agreement to start formal talks aimed at demobilising the AUC's 13,000 fighters by December 2005. But can Colombia afford to pardon—or to punish—a group that includes gangsters, drug traffickers and hired killers?

The paramilitaries emerged in the 1980s as a counterweight to the FARC. They were financed by landowners who felt unprotected by the state. But they soon evolved into a bloody vigilante force accused of massacring entire villages suspected of collaborating with the guerrillas. In some recent years, they have killed more civilians than the FARC has. About 40% of their income may come from drugs. The United States wants to extradite the AUC's leaders, Carlos Castaño and Salvatore Mancuso, for trafficking.

Disarming the AUC would be a big prize for Mr Uribe. It could help both to reduce violence and to ease a future peace deal with the FARC guerrillas. And since the armed forces are frequently accused of colluding with the paramilitaries, their disappearance would remove one objection to foreign aid to Colombia.

An agreement seems possible. Mr Mancuso has told *El Tiempo,* a Bogotá newspaper, that Mr Uribe's efforts to strengthen the armed forces made the AUC “unnecessary”. In December the group declared a ceasefire, though it has been a patchy one. Now the government is to demarcate assembly points where the AUC's fighters will live pending their demobilisation. They will be guarded by Colombia's army and perhaps by international monitors. Mr Castaño said this week that 5,000 fighters would gather in Urabá, in the north-west, within three months.

But much could still go wrong. The paramilitaries are split. Three groups, with perhaps 6,000 fighters, are negotiating separately. Two other bands, totalling some 3,000, are not taking part in the talks. Then there is money. According to Luis Carlos Restrepo, Mr Uribe's peace commissioner, the government plans to pay each demobilised fighter $16,000 over two years, or a total of $208m. The United States has offered $3m-4m. It is not clear where the remainder might come from. Another difficulty, says Alfredo Rangel, a defence analyst, is what might happen to the territory vacated by the AUC if the government fails to exert control. Would guerrillas return to exact reprisals, or would new paramilitary groups emerge?

The thorniest issue remains that of pardons for those AUC members accused of crimes against humanity, not least because of the precedent this would set for any future talks with the FARC. Daniel Garcia Peña, who heads a leftist peace group, says that Colombians would accept such an amnesty provided it is accompanied by a “truth commission”. The government is mulling a plan under which those guilty of crimes against humanity would make “symbolic” reparations to their victims. Others say such schemes would be symbols of impotence.

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The Canadian succession

And then there was one

Jul 24th 2003 | OTTAWA
From The Economist print edition

Paul Martin's main rival drops out

Get article background

THE contest to succeed Jean Chrétien as leader of the Liberal Party and thus as Canada's prime minister is an epic, but hardly a drama. The successor will not be chosen until November. But ever since last August, when Mr Chrétien announced that he planned to retire in February 2004, the undisputed favourite has been Paul Martin, his former finance minister. The whole exercise became even more anti-climactic on July 22nd when John Manley, the deputy prime minister and Mr Martin's strongest rival, pulled out, admitting that he couldn't win. Neither, he said, can Sheila Copps, the leftish heritage minister, the only remaining challenger.

Mr Manley said that it would be “irresponsible” to continue to demand the time and money of his supporters. Money was a problem. He had raised less than a third of the C$6.4m ($4.6m) Mr Martin has amassed, and recently had to lay off campaign workers. Mr Manley may also have been thinking about his job prospects.

Both men are on the Liberal right. With few policy differences between them, Mr Manley chose to attack Mr Martin's integrity, and especially the conflicts of interest raised by his business empire. That got few results beyond hard feelings in the Martin camp. By dropping out, Mr Manley has allowed time for the bitterness to subside. By predicting that Mr Martin will make “an excellent prime minister”, he may have reserved a top cabinet job for himself.

He has also avoided the potential embarrassment of finishing behind Ms Copps. She has little money, but does have a clear policy message and passionate supporters. Defeat at her hands might have doomed Mr Manley in a race he might win: that to succeed Mr Martin, who at 64 is not expected to serve much more than one term as prime minister. Mr Manley, like Ms Copps, is more than a decade younger than Mr Martin.

Ms Copps pledges to fight to the last, even though some pundits predict that she will lose by as much as nine to one. In power since 1993 and facing weak opposition, the Liberals “need a great debate”, she says. “We can't sleepwalk our way into a new government without a test of ideas.”

Even so, Mr Manley's withdrawal may put pressure on Mr Chrétien to step down before February. The November leadership convention looks a formality. So the Liberal caucus in parliament will now take their cue from Mr Martin. Senior civil servants are already doing as much. By leaving early, Mr Chrétien, who has long tried to thwart his rival's leadership ambitions, might disrupt Mr Martin's plans for an early election next spring—and might thus turn it into a real contest.

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BSE in Canada

Beefing at a ban

Jul 24th 2003 | VANCOUVER
From The Economist print edition

Canada gets a bitter taste of its own protectionist medicine

AP

Unsafe for Japanese, and wimps

AFTER a single cow on an Alberta ranch was found to have bovine spongiform encephalopathy (BSE, or mad-cow disease) in May, many countries, starting with the United States and Japan, banned imports of Canadian beef. Much testing has uncovered no other cases. But the ban is still in place, costing Canada C$11m ($7.8m) a day, and seems unlikely to be lifted soon. Unfair, say Canadian ranchers. Is it?

Earlier this month, the United States' Department of Agriculture seemed close to giving the all-clear. But there is a problem. Japan says that it will stop importing American beef after September 1st unless the United States can certify that none of it comes from Canada. Since animals and beef normally move freely across the border, that would be hard.

This has prompted cries of protectionism. But in 2001 Canada itself briefly slapped a gratuitous ban on Brazilian beef. In the same year, it also imposed a ban on the import of live cattle from Japan after a single case of BSE (in all there were seven). Although Japan now regulates beef production far more tightly than Canada its beef exports to Canada have ceased. Japan's government now wants Canada to follow its own practice of inspecting all cows for human consumption.

“Canada's surveillance program for BSE is seriously deficient,” agrees William Leiss, a specialist in public policy towards health risks at the University of Calgary. After Britain suffered a large-scale outbreak of BSE, it banned the use of animal remains in cattle feed. So has the European Union. In 1997, Canada imposed a limited ban on “ruminant protein”, but it still allows other animal products, including blood, gelatine and rendered animal fat to be used in feed. It also allows pigs and chickens, fed on rendered cattle products, to be rendered and fed back to beef cattle.

According to the *Western Producer*, a farm paper, in 1998 government scientists warned that this limited ban should be strengthened. On July 18th, the government announced new regulations requiring the brain and spinal cord of cattle older than 30 months to be removed at slaughter to prevent them contaminating meat. That was an overdue step, but it may not go far enough to satisfy Japan—and thus the United States.

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Correction: President Hipólito Mejía

Jul 24th 2003
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In a story on the Dominican Republic ("Swindled", June 14th), we reported that President Hipólito Mejía was campaigning to change the constitution so that he could seek a second consecutive term as president. In fact, the constitution was changed to that effect last year, and Mr Mejía has said he will stand for a second term.

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North Korea's nuclear weapons

China starts to worry

Jul 24th 2003 | BEIJING
From The Economist print edition

The government in Beijing appears, at long last, to be playing a constructive role in defusing the nuclear Kim Jong Il

CHINA is at last waking up to the nuclear crisis on its doorstep. A flurry of shuttle diplomacy involving top Chinese diplomats and other countries involved in Korean security is fuelling hopes that North Korea and America could resume talks by early September. Reports that North Korea may have a second, hidden facility for making weapons-grade plutonium have underscored the difficulty of pursuing any path other than diplomacy. If true, a surgical strike on North Korea's one declared plutonium plant at Yongbyon would be highly unlikely to eliminate the problem.

In unusually strong language, China's foreign-ministry spokesman said on July 17th that his country believed the situation on the Korean Peninsula was at a “critical and sensitive moment”. A day later, China's deputy foreign minister, Dai Bingguo, met the American secretary of state, Colin Powell, and other officials in Washington. Mr Dai briefed the Americans on his meeting with North Korea's leader, Kim Jong Il, in Pyongyang earlier in the week, during which he handed Mr Kim a letter from Hu Jintao, China's president, urging the north to get talking.

Western diplomats are encouraged by China's more active role. The British prime minister, Tony Blair, came away from meetings with Chinese leaders early this week with the impression that talks could take place “within the next few weeks”. These would probably follow the same trilateral format as discussions held in April in Beijing involving the Americans, North Koreans and Chinese. The format gave the Americans—who refuse to negotiate directly with the North Koreans and want all of their allies in the region involved—a face-saving way of meeting the North Koreans one-on-one (as North Korea demands), during coffee breaks.

According to reports in the *Washington Post*, American officials will agree to another round of trilateral talks on condition that they are followed swiftly by another round bringing in South Korea and Japan. At this, the Americans are thinking of offering North Korea a formal promise not to attack as part of a deal involving the verifiable dismantling of North Korea's nuclear programme. Mr Blair said in Beijing that “pressure from China” was playing a particularly important role in persuading the North Koreans to change their position. Paik Jin-Hyun of Seoul National University says China has “changed quite a lot”

and is now seriously worried about the possibility of North Korea becoming a declared nuclear state.

But if the Americans and North Koreans ever do get as far as talking about a deal, the issue of verification could prove a stumbling block. During the last nuclear crisis in North Korea in 1994, the problem was focused on plutonium-processing facilities at Yongbyon, and on an uncompleted power plant at Taechon. The latest crisis erupted because of American suspicions—confirmed last year by the North Koreans—that the country was producing or trying to produce enriched uranium, the only likely use for which is nuclear weapons, at an unknown location. There are now further suspicions that North Korea may have an additional plutonium-processing facility somewhere else.

The evidence for this secret plant is slim. It depends on readings of krypton-85 gas taken at the North Korean border with the south. This gas is emitted when plutonium is extracted from spent fuel rods. The krypton detected recently appeared to have drifted from somewhere other than Yongbyon, although this must be open to question given the minute quantities involved. But if North Korea's claim, earlier this month, to have finished reprocessing all 8,000 of its spent plutonium fuel rods (enough for six bombs) at Yongbyon is true, then it would make sense that another facility was involved. Experts doubt that the one at Yongbyon is working well enough to process so many so fast.

American intelligence on North Korea's nuclear programme has been proved wrong before. In 1998 the Americans spotted what they thought was an underground nuclear facility in Kumchang-ri, about 80km (50 miles) north-east of Yongbyon. The following year, the North Koreans agreed to let American officials inspect the site. They found bare tunnels and no evidence that the area had been used for anything untoward. But even the reprocessing at Yongbyon, no matter how far it has got, is proving enough to cause alarm. On July 18th, the head of the United Nations' International Atomic Energy Agency, Mohamed ElBaradei, said North Korea presented the world's “most immediate and most serious threat” to nuclear non-proliferation efforts.

Despite Mr Blair's talk of Chinese pressure, China is still reluctant to consider any multi-nation action against North Korea, such as a blockade or even a UN Security Council resolution condemning its neighbour. It signalled its disapproval to North Korea earlier this year by briefly shutting off an oil pipeline for what it claimed were “technical reasons”. But it sympathises with North Korea's demands for an American pledge of non-aggression and continues to provide substantial aid—last week pledging 10,000 tonnes of diesel oil. Still, Shen Dingli, an arms-control expert at Fudan University in Shanghai, says that China's position could change if the Americans do provide a security guarantee to the North Koreans who in turn fail to dismantle their nuclear programme.

For North Koreans, any move towards accommodation would involve an ideological somersault, given that the regime uses anti-American sentiment as a pillar of its legitimacy. July 27th is the 50th anniversary of the signing of the armistice that ended the Korean war. North Korea, as usual, is celebrating the build-up to this date as a “month of anti-US struggle”. It began with rallies in which, said the official news agency, about 1m Pyongyang citizens took part, “shaking with towering hatred and resentment” of the Americans.

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Japan's armed forces

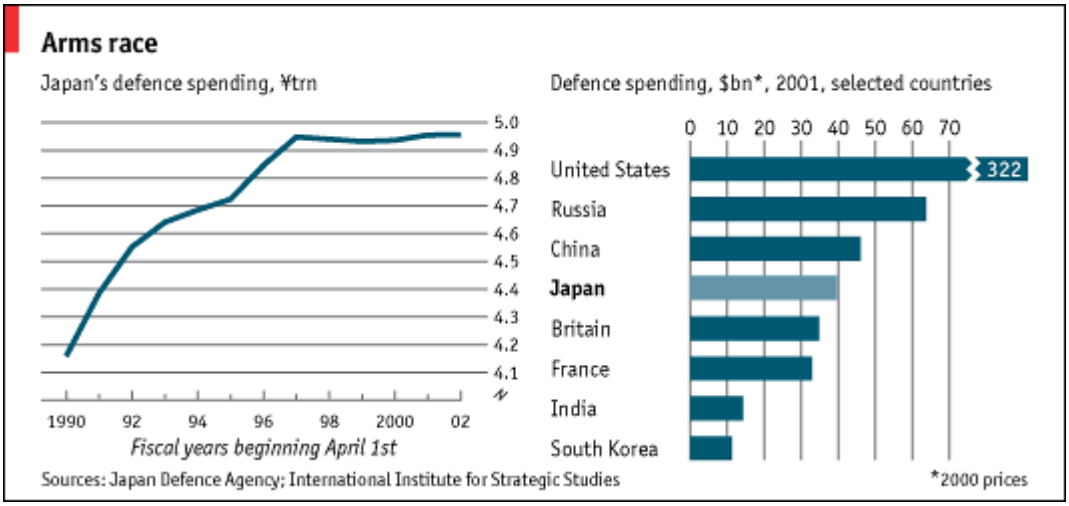
Into harm's way

Jul 24th 2003 | TOKYO
From The Economist print edition

Is Japan really ready to send troops to Iraq?

SO FAR, Junichiro Koizumi's efforts to expand the role of Japan's armed forces have been carefully controlled political exercises. Shortly after September 11th 2001, Mr Koizumi's government passed a law to help America indirectly in Afghanistan by sending support ships to the Indian Ocean. Then, this June, it passed long-overdue "emergency" laws that will make it easier to respond to any attack on Japan's territory. Now parliament's upper house is preparing to approve yet another law, deploying troops to Iraq. Once this succeeds, however, Mr Koizumi and his fellows must brace themselves to lose control of the process they have set in motion. For the next big step in the evolution of Japan's armed forces could well occur far away from the predictable world of Japanese politics—when shooting starts in Iraq.

Of course, Mr Koizumi and his team will try to control and limit those risks. That is why even if the law clears the upper house, as expected, before the current Diet session ends on July 28th, Japan is unlikely to send troops to Iraq before this autumn. Before doing so, the government will take more time to study its options and co-ordinate with American and other forces. Although it will look for ways to do what coalition partners ask—mostly helping with logistics—the government will also try to confine its troops to relatively safe parts of Iraq, such as the area around Baghdad airport. It knows that if and when members of Japan's "self-defence forces" (SDF) do get caught up in skirmishes, Japanese voters will suddenly take much more notice of just how much defence policy has been changing.



The SDF have been sent on peacekeeping missions before, such as to Cambodia in 1992 and East Timor in 2002. A deployment to Iraq, however, will be a far different undertaking if it goes ahead. Partly, that is because it will be more dangerous than those earlier operations. SDF personnel will be more heavily armed than on previous missions, and will be more prepared this time to have to use their weapons against potential threats to themselves and others. An even more important difference, however, is that this SDF operation will be the first that Japanese ground troops have embarked upon without wearing the blue helmets of the UN.

If something goes wrong, therefore, it could prove a huge setback, not just for Mr Koizumi domestically, but also for proponents of a weightier Japanese role in world affairs. So far, Japan's public has largely supported Mr Koizumi's efforts. North Korea's nuclear threats, combined with last year's admission that the regime had long been abducting Japanese nationals, have left many Japanese feeling vulnerable. Although many opposed the war in Iraq, they have largely supported Mr Koizumi's decision to back the

United States, since Japan needs America as an ally.

Debate about the proper defence posture has also grown more normal. The laws clarifying Japan's response to a direct attack had been needed since the 1970s, but have only become discussible in the past year or so. Japanese are also talking more openly about the risks and merits of Japan acquiring nuclear weapons at some point in the future. Although this remains a very unlikely step, the current low-key debate seems more sensible than the previous taboo. People are also talking openly about whether Japan should strike first in the event of an imminent missile attack from North Korea. The defence agency has recently launched two spy satellites, Japan's first, to keep an eye on the dangerous neighbour.

In short, Japan's defence policy has been slowly turning into a legitimate topic of calm democratic debate. Might a mishap in Iraq reverse these recent gains? The main opposition party, the Democratic Party of Japan, will certainly be in a position to point fingers. Although it helped to craft a compromise on the emergency laws passed in June, the Democrats have opposed the sending of SDF troops to Iraq. Having lost to the ruling coalition in the lower house, Naoto Kan, the Democrats' leader, gave up this week on attempts to broker a compromise in an upper-house committee. As *The Economist* went to press, the Democrats were planning a series of no-confidence motions against members of Mr Koizumi's government, in an effort to slow down—but with little hope of preventing—the bill's passage.

If shooting continues in Iraq this autumn, however, Japanese voters could rally behind the Democrats. In recent weeks, their attitudes towards an Iraq deployment have cooled, as American and British casualties have continued to mount. One newspaper poll this week found that 55% of respondents are now opposed to sending in SDF troops. That figure will almost certainly rise sharply in the face of casualties, whether borne by Japanese troops or inflicted by them on bystanders. Mr Koizumi has made some impressive progress. But the next step will be the most perilous, and Japan's armed forces will have to take it on their own.

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Cambodia's election

Stronger and stronger

Jul 24th 2003 | PHNOM PENH
From The Economist print edition

The prime minister looks unbeatable

TWO consistent trends have emerged during Cambodia's past three elections. At each poll—two for the national parliament and one for local councils—the campaigning and voting have gradually become better organised and less violent. At the same time, the results have slowly consolidated and legitimised the authority of Hun Sen, Cambodia's prime minister of 18 years. The two trends, cynics say, are not unrelated: the more secure the strongman feels, the less he needs to strong-arm the electorate. The parliamentary poll on July 27th looks likely to prolong the same pattern.

The prime minister's Cambodian People's Party (CPP) first came to power with the help of the Vietnamese army, which had invaded to oust the genocidal regime of the Khmers Rouges. But over a decade later, with the civil war still dragging on, Mr Hun Sen agreed to hold multi-party elections, supervised by the United Nations. When the CPP lost, he muscled his way into government anyway, and later mounted a coup against the winners, the royalist FUNCINPEC. At the next election, in 1998, the CPP's control of the police, the election commission and the media, along with an intimidating wave of violence, helped it to become the largest party in parliament. At local elections last year, the CPP further cemented its hold, coming in first in 1,597 out of 1,621 communes.

Reuters

Hun Sen: no francophone

So far, at least, election monitors rate the current campaign as the cleanest of the lot. Apart from the assassination of a prominent member of FUNCINPEC in February at the hands of gun-slinging motorcyclists, there have been relatively few murders of an obviously political bent. The government has set up a more credible election commission. Parties other than the CPP have even won a little television coverage. On election day itself, there will be several observers per polling station.

Opposition politicians contend that the CPP is simply resorting to other tactics to ensure victory. Stories abound of CPP officials forcing villagers to swear on a bullet to vote for their party. The bullet, it is understood, will eventually catch up with those who fail to keep their promise. Vote-buying is also widespread. The CPP is said to dole out cash, in addition to the usual food, medicine and T-shirts (all valuable items for Cambodia's dirt-poor farmers). The electorate might also be influenced by fears that the CPP will again resort to violence if it is foiled at the ballot box.

But the CPP also has many genuine supporters. It has the biggest and most efficient party machine, an important asset in a country where most people, according to the pollsters, view elections as an exercise in patronage rather than principle. Mr Hun Sen, who grew up in a small village, has a better rapport with ordinary Cambodians than the French-speaking sophisticates of FUNCINPEC. He has also presided over the most peaceful and prosperous period most Cambodians can recall. As chequered as his record is, he is the only leader in Indochina to permit multi-party elections of any sort.

Moreover, the other parties' problems are not all of the CPP's making. In 1998, FUNCINPEC's leaders dismayed many of the party's supporters by joining the CPP in government, just months after the CPP had launched its coup and killed many FUNCINPEC loyalists. In the commune elections last year, the party's share of the vote slipped to 22%, from 32% in 1998. Princess Vacheara, another prominent FUNCINPEC member, recently condemned the party leadership for corruption. One prince, Chakrapong, has formed a rival monarchist party under the slogan “the real royalists”.

The better organised Sam Rainsy Party is hoping to take advantage of this chaos to supplant FUNCINPEC as the second largest party, and perhaps even to win enough votes to prevent the CPP from governing on its own. Its eponymous leader, a former finance minister, is well known in the cities for his strident condemnations of corruption. But in the countryside, where most Cambodians live, he concentrates instead on xenophobic denunciations of Cambodia's ethnic Vietnamese minority. One small party has even suggested rounding up and deporting all Vietnamese. The election may provide Cambodians a chance to choose their leaders freely—but it's not much of a choice.

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Trouble in the South Pacific

The judgment of the Solomons

Jul 24th 2003 | SYDNEY
From The Economist print edition

To sort things out, you have to be tough

AP

The police arrive

AN AUSTRALIAN-LED force of over 2,000 soldiers began arriving in the Solomon Islands on July 24th for what may be the biggest military operation in the islands of the South Pacific since the second world war. The last landing in the Solomons, by the Americans in 1942, drove out the occupying Japanese. This time the enemy and the aim, and how long the job could take, are a lot less clear. Sir Allan Kemakeza, the country's prime minister, sailed out to sea from Honiara, the capital, on the night of July 22nd "for security reasons", until things got a bit tidier.

Since gaining their independence from Britain in 1978, the Solomons have been a quarrelsome, divided place. The cause goes back to the second world war, when the Americans in Guadalcanal, the main island, brought in people from the neighbouring island of Malaita to help them. The Malaitans eventually came to dominate Guadalcanal's economic and political life. Four years ago fighting broke out between militiamen of the Isatabu Freedom Movement (Isatabu is the old name of Guadalcanal) and the Malaita Eagle Force. Australia and New Zealand negotiated a ceasefire in 2000, but it did not last.

Over the past year law and order have broken down; schools have shut, and there is little water, electricity or transport. The mainly subsistence economy has collapsed. Export earnings fell by 80% between 1997 and 2002. Australian aid, which has increased threefold over the past four years to A$36m ($23m) a year, has reached barely any of the Solomons' 465,000 people. Nor has income from timber, one of the Solomons' main resources. Last February a former police commissioner was assassinated. The appointment of the latest commissioner, a Briton, who will try to rebuild the police force, was paid for by the European Union.

Australia will provide three-quarters of the rescue force's 2,225 troops, the rest coming from New Zealand, Fiji, Papua New Guinea, Samoa and Tonga. Alexander Downer, Australia's foreign minister, says it is a police operation, not a military one: the force's main job is to protect the 300 policemen, half of them Australian, who are also being sent.

Australia will "not sit back and watch while a country slips inexorably into decay and disorder," adds Mr Downer. This sits oddly with what he said in January: "Sending in Australian troops to occupy the Solomon Islands would be folly in the extreme. It would be widely resented in the Pacific region...It would not work, no matter how it was dressed up."

What has changed? Since January, Australia has revitalised its alliance with America. It was one of the few countries to join the coalition fighting the war in Iraq. The Solomons intervention was approved by the countries of the Pacific Islands Forum on June 30th, and has since been endorsed by the Solomons' own parliament. And John Howard, the Australian prime minister, has justified it in the context of the American-led war on terrorism. He says that a "failed state", as the Solomons have been called, on Australia's doorstep could become a "haven for terrorists, drug-runners and money-launderers."

Mr Howard generally shows more interest in the American alliance than in Pacific affairs; he has failed to attend several meetings of Pacific Forum leaders. His remark that the Solomons intervention could lead to “pooled regional governance” among island states that are “too small to be viable” suggests the consequences of the intervention have still to be worked out. It certainly makes some islanders wonder what he has in mind.

For the moment, at any rate, the intervention appears to have been welcomed by many people in the Solomons, if only because they long for an end to violence and the restoration of basic services. Getting a new order into place will be a harder and longer task, perhaps lasting years. And not just in the Solomons.

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India

Altitude sickness

Jul 24th 2003 | DELHI
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A spate of accidents raises concerns about an elderly air force

AFP

Look out below

YOUNG pilots in the Indian Air Force (IAF) who hope their glamorous job will land them a dazzling bride should probably avoid flying the IAF's ageing MiG-21 fighter aircraft. Air Chief Marshall S. Krishnaswamy said recently that the rating of MiG pilots in India's (often arranged) marriage market is going down because of the planes' frequent crashes. More than 100 of these "flying coffins", as the Indian media now calls them, have crashed in the past ten years, killing 45 pilots. So have a smaller number of MiG-23s. One of each version has crashed this month.

Senior air-force officers still defend the aircraft—though possibly because a shortage of funds, plus bureaucratic blockages, will stop them being replaced for many years. Jasjit Singh, a former air commodore and now a defence analyst, who bailed out of MiG-21s twice when he was a squadron commander, says "it is one of the finest aircraft in the world—difficult to fly but good in war."

Mostly bought by India from the Soviet Union between the 1960s and 1980s, MiG-21s now make up about half its fleet of 750 combat aircraft. But spares have become less reliable since the Soviet Union collapsed, and Indian maintenance is sometimes poor, leading to engine and other mechanical failures. Pilot error is blamed for about six out of ten crashes. This is largely the result, officers say, of too little money for training and the absence of advanced training aircraft to bridge the gap between a basic jet trainer and a MiG.

India has been negotiating to buy the Hawk advanced jet trainer (AJT) from BAE Systems of Britain since the mid-1980s. A deal—now priced at about £800m ($1.3 billion) for 66 aircraft—has come close several times, only to be upset by rivals making moves that block a final decision. Earlier this year an offer from Aero Vodochody, a Czech government-owned company in which Boeing has a 35% stake, caused delay.

A Hawk deal was about to be signed in March 2001 when widespread Indian defence ministry corruption was revealed by tehelka.com, a Delhi-based website. Since then, George Fernandes, defence minister, told the *Indian Express* on June 30th, "hardly any official in the ministry would like to put his signature for anything that has to be purchased because he thinks that is the best way for him to survive." In recent months, a deal has again been complicated by allegations of corruption against BAE Systems (which the company denies), and by Britain's failure to decide whether to buy more Hawks for itself. If these issues are not cleared up, fresh tenders may be needed. And that, Mr Fernandes says in exasperation, could mean an advanced-trainer order will have to wait up to five years.

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The killing of Uday and Qusay Hussein

Two gone, and one to go

Jul 24th 2003 | BAGHDAD
From The Economist print edition

AFP

Will their departure take the heart out of Iraqi resistance?

Get article background

CELEBRATORY tracer fire soared into the skies over Baghdad late on July 22nd after Arabic satellite channels broadcast the death of Saddam Hussein's two sons, Uday and Qusay.The sons, whom the Americans say were killed with two others in a barrage of missiles on a fortified villa in the northern city of Mosul, were two of the ugliest faces of an ugly regime.

A watchmaker in Baghdad's shopping district spits upon hearing the sons' names. “Uday raped a thousand girls,” he says, recalling the infamous behaviour of Saddam's elder and more erratic son. Other Iraqis speak of the hundreds of millions of dollars the former first family reportedly spirited into bank accounts. The Husseins, they say, were a gang, “criminals who took from the Iraqi people.”

Some distrust the news. Iraqis, after all, have little faith in coalition pronouncements. In the hope of convincing the sceptics, the Americans say they will produce photographs, no doubt grisly, of the two brothers. Other Iraqis sense a conspiracy, questioning why the sons were killed rather than captured; at the very least that might have led to the stolen millions. Yet, though troubling questions hang in the air, for most Iraqis the volume of reports from different sources is proof enough.

The United States put a high value on the sons. To be precise, $15m on each, as a reward for information leading to their death or capture, compared with $25m on their father (an Iraqi, who reportedly came in from the street, is now richer by $30m). American officials have already expressed hope that the deaths will demoralise the irregulars, estimated to number several thousand, who currently wage low-intensity guerrilla warfare against the Americans, mostly in the Sunni areas to the north and west of the capital.

Paul Bremer, head of the Coalition Provisional Authority, has characterised the insurgents as professional fighters from the paramilitary force known as the Fedayeen Saddam, the Special Republican Guard, and other wings of the regime's security services that were steeped in ideology. Saddam Hussein, he says, is a symbol and an inspiration to those who hope they can drive the coalition from the country, and bring back the old order. Both Qusay, Saddam's likely successor and commander of the Republican Guard, and Uday, who led the Fedayeen Saddam, were extensions of their father's authority.

Others are not so sure about the nature of the resistance. The coalition itself has said that the insurgents lack any sort of command structure. Although Saddam may be able to keep up his partisans' morale by issuing taped calls to *jihad*, the latest of which appears to have been recorded two days before his sons' deaths, he is not said to be issuing orders.

In the couple of days since the deaths, insurgents have killed five American soldiers, four of them in the north and one in the west. In the absence of any statements from the attackers, it is impossible to tell whether these killings were supposed to avenge Uday and Qusay, or were simply another of the daily hit-and-run attacks that have left some 40 American soldiers dead since major fighting was officially declared to be over on May 1st.

There is also the question of whether all the attacks are tied to elements of the former Baathist regime. General John Abizaid, the head of central command in Iraq, and others have listed radical Islamists to be among the insurgents. However, given Saddam Hussein's attempts to link Iraqi nationalism and Sunni fundamentalism in the last years of his regime, the two ideologies may not be as wide apart as they were in the past.

The coalition denies that any significant number of Iraqis have taken up arms because they have suffered abuse at the hands of American soldiers. Mr Bremer recently conceded that unhappy Iraqis might take a shot or two at passing soldiers, but declared that the most deadly attacks were all carried out by military or security professionals. Little hard evidence has yet emerged to refute this claim.

The whittling away of the Saddam clan may lighten the shadow of fear that Iraq's former ruler still casts across the country. The Americans largely depend on insiders to provide them with information about the whereabouts of former Baathists. As the yet-hidden Saddam appears ever more vulnerable, more informants may emerge from the woodwork.

For most Iraqis, however, the Americans' counter-insurgency campaign is merely a sideshow from the electricity shortages and street crime that still make life in the capital a daily ordeal. As the threat of Saddam's return diminishes, Iraqis, who hated him but deeply distrust the coalition, may be less willing to tolerate the foreign forces in their midst.

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Iraq's Sadrist opposition

No to America, no to Saddam

Jul 24th 2003 | NAJAF
From The Economist print edition

A Shia group that stands against the coalition and the council

AP

In the name of the martyrs, we denounce all others

Get article background

THE Army of the Mahdi—the ninth-century imam whose return, say Iraqi Shias, will usher in the millennium—mustered on July 20th, on a sunbaked field outside the holy city of Najaf. Several thousand men in makeshift white capes beat drums, waved banners, and chanted slogans denouncing the Americans, imperialism, Saddam, and Satan. A picket of Shia clerics tried, without much success, to keep them from breaking ranks and treading on the crops. The object of this display, a handful of American marines manning a nearby checkpoint, milled about as their commander called through a loudspeaker on the crowd to disperse.

The “army” is the creation of Muqtada al-Sadr, a radical Shia cleric who has emerged as the most prominent critic of the American-led coalition, and the appointed Iraqis in the Governing Council. Although young and low-ranking in the religious hierarchy, Mr Sadr has considerable support thanks to his father, the late Ayatollah Muhammad Sadiq al-Sadr, who was murdered along with two of Muqtada's older brothers in 1999, almost certainly by order of the Saddam regime.

Dead men's shoes

The movement is, to a great extent, the personality cult of a dead man. Muqtada's picture rarely appears in Sadrist offices or at rallies, and when it does he is almost always in the presence of his father. The movement's Najaf headquarters is the “Office of the Two Martyrs”, named after Muhammad Sadiq and another member of the family, Muhammad Baqir al-Sadr, who was executed by Saddam in 1981. As such, it has a powerful appeal to the millions of Shias who lost family to the Baathist terror. Mr Sadr has strong support in north-east Baghdad's Shia slums, formerly known as Saddam City but which his followers have renamed al-Sadr City.

Mr Sadr has a reputation among other Shia factions as a troublemaker. His followers are widely blamed for the murder of a coalition-friendly cleric, Abdel Majid al-Khouei, in Najaf in April, soon after his return from exile. Mr Sadr's followers subsequently laid siege to the house of Ayatollah Ali al-Sistani, a senior cleric regarded as a moderate. Unlike the other main Shia movements, the Sadrists were excluded from

the council, partly, it is said, because other Islamists would not sit with them.

In his turn, Mr Sadr has little regard for the council. On July 18th, the first Friday after the council's inauguration, he delivered a sermon in Najaf's sister town, Kufa, declaring that the council was made up of “unbelievers” and that Shias should ignore its authority. He said that he would set up a “council of the righteous” as an alternative to this “council of wrongdoers”.

His Army of the Mahdi would be an alternative to the soon-to-be reformed, coalition-sponsored, Iraqi army. There is some confusion among Sadrist clerics on whether the army will actually be an armed militia, or just a new name for the volunteer cadres who have been carrying out social and religious work over the past three months (as well as, reportedly, smashing up shops selling alcohol and streetfighting with rival factions).

After Mr Sadr's Friday sermon, Sadrists announced that American forces had entered the centre of Najaf and surrounded the cleric's house. They called on the faithful to assemble at Sadrist offices throughout the country, to be bused into Najaf to defend their leader, and demand the immediate withdrawal of American troops from the holy city. American officers admitted that they did step up their military presence in Najaf on July 19th, but only in order to protect a visiting defence official, Paul Wolfowitz.

Whether or not the misunderstanding was deliberate, Mr Sadr is indulging in brinkmanship. He has steered away from anything that might sound like a call to violence. Sadrist demonstrations, at least against the coalition, are generally peaceful. But the Americans have a low tolerance for alternative power structures. A number of Iraqis, including Sadrists, have been detained for declaring themselves mayors or governors, and Mr Sadr probably knows that he is courting arrest.

But so far he seems more an annoyance than a threat to the coalition. Crowd counts vary, but turnouts at Sadrist demonstrations are probably under 10,000. Most devout Shias, in Najaf as well as elsewhere in the country, may venerate his father as a martyr, but will probably continue to look to the senior clergy for spiritual guidance. However, if Mr Sadr gets himself arrested, he may be able to establish himself as a symbol of resistance to the new order, as his father was a symbol of resistance to the old.

The object of Mr Sadr's ire, the Governing Council, was meeting this week to try to choose a president. Instead of a single figure, it is reported to have agreed on a triumvirate. This, it is said, will consist of Adnan Pachachi, a respected Sunni politician, and two Shia clerics: Muhammad Bahr al-Uloom, an independent, and Abdelaziz al-Hakim of SCIRI, the Iranian-backed party which opposes the occupation but also has no time for the Sadrists.

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Palestinian ceasefire

Bending in the wind

Jul 24th 2003 | EAST JERUSALEM
From The Economist print edition

What are its chances of survival?

AP

Even in prison, Barghouti's listened to

A STORMY meeting between Mahmoud Abbas and Ariel Sharon on July 20th set an uneasy temperature for the two prime ministers' visits to George Bush, on July 25th and 29th respectively. Their quarrel was over Israel's failure to release a decent number of Palestinian prisoners. Though their release is not a specific demand of the road map, it is crucial to confidence-building—and to enabling the Palestinian prime minister to keep his unruly factions to the three-month ceasefire they reluctantly agreed on June 29th.

Though the ceasefire has not been absolute, there has been a dramatic drop in violent incidents. But the fact that several of the continuing attacks were carried out by units of the al-Aqsa Brigades, the militia linked to Mr Abbas's own Fatah movement, points up the size of the task the prime minister faces. His problems are compounded by the distrust that many in Fatah feel towards him and his policies, especially the young leaders who came to prominence during the *intifada*.

Mr Abbas has received international accolades for his renunciation of violence. But every Palestinian is aware that the true architect of the current ceasefire is not Mr Abbas but Marwan Barghouti, the young West Bank Fatah leader imprisoned by Israel on 26 counts of murder. It was on a mobile phone from his cell, with Israel's complicity, that Mr Barghouti steered Fatah, Hamas and Islamic Jihad to agree to a truce. “Marwan is the only Fatah leader Hamas listens to, other than perhaps Yasser Arafat,” said a diplomat who helped with the communication.

Many Fatah members, including Mr Barghouti, now agree that the armed *intifada* has run its course. It cost their people grievously in terms of life and injury, and licensed Israel's reconquest of the West Bank. Bloodied, they are again ready to give up violence for negotiations, and accept the Palestinian Authority's security obligations under the road map. But all are aware these measures cannot win public backing unless Mr Abbas delivers, or rather gets Israel to deliver, something in return. And so far he hasn't delivered.

Palestinians viewed with scorn Israel's promise to release a few hundred prisoners out of the 5,000 or so political prisoners it detains. Similar derision greeted Israel's promised withdrawals earlier this month, which amounted to a few roads being opened in Gaza, and to PA policemen steering traffic in Bethlehem, but left both areas utterly sealed from other Palestinian territories, and still penurious in their economies. Above all, Palestinians have yet to see any evidence of a freeze on settlement construction in the occupied territories, despite Israel's obligation under the road map to observe one.

Palestinians are particularly alarmed by Israel's “security wall” which is carving out large chunks of Palestinian land in the West Bank, and is generally seen by Palestinians as the most mortal threat to their hope of a viable state. So far Mr Abbas's opposition to the barrier has been confined to phone calls to Tony Blair and to Mr Bush's national security adviser, Condoleezza Rice, neither of whom have so far managed to dissuade Mr Sharon from continuing. On the ground, the PA is conspicuous by its absence. Mr Abbas is irrelevant, lament Palestinians in villages and towns whose land is being taken.

Another of Mr Abbas's troubles is his rancorous relationship with Mr Arafat. A couple of weeks ago, he threatened to resign as prime minister after the president's public criticism of his negotiating performance. Matters were smoothed over, but few expect the reconciliation to endure, as Mr Abbas tries to stake out a degree of political independence for himself, and Mr Arafat uses every trick in his

voluminous book to thwart him.

Then there is the question of Palestinian reform. Under the road map, new Palestinian elections are due before the establishment of a “provisional” Palestinian state next year. Many of Fatah's younger members (and some in Hamas and Islamic Jihad too) see elections as the vehicle through which they can translate the nationalist kudos they gained in the uprising into real political power. For precisely this reason, Israel is unlikely to tolerate an election. And, so far, America has defined Palestinian Authority reform in terms of a micromanaged regime change rather than democracy for the Palestinian people.

However cordial Mr Abbas's relations with the Bush administration, this is a definition he cannot afford to accept, says Khalil Shikaki, a Palestinian analyst. “For Fatah's young guard, Palestinian elections may be the central achievement of the road map. If Abu Mazen fails to bring them, they will eat him alive”.

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Saudi Arabian crackdown

In al-Qaeda's sights

Jul 24th 2003 | RIYADH
From The Economist print edition

Are the royal family the terrorists' target?

THE House of Saud has widened the hunt for al-Qaeda. In a three-day sweep, which included Qasim, the base of the kingdom's official Wahhabi creed north of Riyadh, the security services this week netted 16 suspects, a 20-tonne cache of bomb-making chemicals, and cash boxes for religious donations. The cell's plans, say highly placed sources, included the assassination of two of the kingdom's rulers, Prince Sultan, the defence minister, and Prince Nayef, the interior minister, both of them full brothers of King Fahd.

Both princes have held their government positions for decades, and are traditionally viewed as arch-conservatives, aligned to the powerful Wahhabi establishment. In recent months they have both, for different reasons, become targets for Islamist insurgents. Prince Sultan is seen as a traitor for allowing America to co-ordinate the war on Iraq from the air base south of Riyadh that is named after him. Prince Nayef is targeted because of the new vigour, not always applied with accuracy, with which his security forces have chased al-Qaeda's fans.

The crackdown was launched after the triple suicide bombing in Riyadh on May 12th, which killed 26 bystanders and nine of the attackers. The authorities say almost 150 suspects are being held in custody, and more than 1,000 people have been interrogated. Others put the numbers jailed since May at over 2,000.

Clerics as well as suspected terrorists face arrest. The crackdown has included the detention of over a dozen turbulent preachers, with bans slapped on scores of others. Some 1,000 clerics have been sent on government courses for re-education. Islam's holiest cities, Mecca and Medina, have been at the centre of the chase, with five suspects and two security officers dying in shoot-outs.

Even one-time dissidents admit it may be time to curb the young radical God-squads who, if the authorities are correct, now have the portly royals squarely in their sights. Shortly before the May bombing, when 19 suspects escaped after a raid on their cell, Saudi security sources said that Osama bin Laden had named the two princes as targets. Prince Nayef, in any event, appears to be taking the threats seriously. Last week, dozens of Asian immigrants worked day and night to erect a 12-foot reinforced concrete wall around his fortified interior ministry in Jeddah.

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Liberia's civil war

Fiddling while Monrovia burns

Jul 24th 2003
From The Economist print edition

The reluctance of outsiders to intervene

Get article background

AFP

But does he frighten the rebels too?

MORTARS crashed into America's embassy in Monrovia this week, flattening a diplomat's house, injuring several embassy staff, and killing more than 30 of the 20,000 refugees cowering in the embassy compound next door. Outside, in the streets of Liberia's battle-torn capital, there was worse. The rebel Liberians United for Reconciliation and Democracy (LURD) launched its latest assault on Monrovia on July 19th. It has lots of shiny new toys, but its child-fighters do not know how to aim them. Hundreds of people have been killed by stray explosions, raising the cost of two months of fighting for Monrovia to over 1,000 civilian lives.

As in the LURD's previous attacks, bereaved Monrovians dumped dozens of fresh corpses outside the American embassy, and chanted for American troops to come and save them. Liberia is America's historic ally in West Africa, and Liberian ju-ju is considered potent, but George Bush proved resistant. Some 40 American marines were airlifted to Monrovia this week to prepare for a possible evacuation, and a 4,500-strong American force bobbing at sea was put on the alert. But Mr Bush announced no plans for American military intervention.

Instead, he offered logistical support for a Nigerian-led, regional peacemaking force. This had been promised last month when ceasefire talks were going on between the LURD and Liberia's government. But with the ceasefire long forgotten, the regional powers have been prevaricating. However, on July 23rd they agreed that a force of 1,300 Nigerians, which has been keeping the peace in Sierra Leone, should be redeployed to Liberia. This, or so it was said, should arrive in about a week.

Charles Taylor, Liberia's president, has stoked wars in all of Liberia's neighbours (including Sierra Leone, where a UN-backed court has charged him with crimes against humanity), and now appears reluctant to let go. Earlier this month, faced with a possible encounter with American troops, he accepted a Nigerian offer of asylum. But this week, as the rebels fought their way into central Monrovia before being pushed back, Mr Taylor's henchmen suggested he would prefer to fight it out.

Under pressure from the UN, Britain and France, all of which have intervened to end Liberia's neighbours' wars, America sent a humanitarian assessment team to Monrovia last month. Also, through its military support for Guinea, which backs the LURD, America has attempted to rein in the rebels. But the LURD's fighters are now ignoring their politicians' call for a renewed ceasefire.

Reluctant either to land its troops in Liberia, or to abandon it altogether, the United States risks being entangled in the sort of poorly-mandated, multinational intervention it has so often deplored. Trading diamonds for guns, Mr Taylor found it reasonably easy to deal with Nigeria's last chaotic mission to Liberia, which was sent to quell the civil war he started in 1989. He may hope to do so again. In the meantime, Monrovia's mess and misery continues. When a Lebanese businessman saw marauders swarming over his wall, he phoned the hotline for Mr Taylor's new anti-looter strike force. One of the marauders took the call on his mobile.

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Terrorism in Morocco

Don't hang the barber

Jul 24th 2003 | CASABLANCA
From The Economist print edition

An end to "leniency", but no ban yet on the moderate Islamist party

THE 52 young men who filed into a Casablanca court-room this week looked disturbingly average. Though most wore beards, little else distinguished them from the under-employed young men to be found loitering around the city or hawking counterfeit designer-sunglasses at street corners.

According to the state prosecutor, the 52 had connections with an extremist Islamist movement called the Jihad Salafists, and were involved in the suicide bombings in Casablanca on May 16th which claimed 44 lives, including those of 12 bombers, bringing Moroccans with a bang into the post-September 11th world. One 24-year-old was said to have been seized with his bomb still strapped to his chest.

The opening hearing was adjourned to give defence lawyers more time to prepare. More than 700 people are due to come before the courts in batches through the summer, after a security sweep which netted not only alleged Jihad Salafists but also individuals unwise enough to have expressed support for the bombings.

After the bombings, Saudi-financed religious schools were closed down, and four journalists were taken into custody when their newspapers published statements from radical Islamists. A handful of prominent imams said to have provided intellectual inspiration for the bombers, and now accused of criminal conspiracy, will stand trial in August.

As King Mohammed signalled soon after the attacks, Morocco's era of "leniency" is at an end. Legislation approved within days of the bombings allows the death penalty for terrorist acts. Ten death penalties were handed down on July 11th to members of a Jihad Salafist gang convicted of homicide, in a case predating the Casablanca attacks.

A Moroccan proverb says: "The minaret falls down, and they hang the town barber." Soon after the Casablanca bombings, the moderately Islamist opposition party, Justice and Development (PJD), thought it might become the barber. Some in the press and palace sought to implicate it in the attacks. But it would be controversial to ban a party that came third in last year's parliamentary elections. And the PJD had anyway been quick to condemn the bombings.

Still, the PJD appears to understand that this is a time to tread softly. In local elections in September, it intends to put up only a small number of candidates, stressing quality rather than quantity. Under pressure from the Interior Ministry, it is adopting a gentler platform. Out go demands for the enforcement of Islamic laws and tirades against nightclubs serving alcohol; in come calls for good government and tax breaks to help small businesses and encourage consumer spending. For the time being, at least, moderate Islamists are being allowed to keep their place in the parliamentary system.

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France and the United States

Which way now for French policy?

Jul 24th 2003 | PARIS
From The Economist print edition

Stand firm against the United States? Try—not too hard—to make friends again? France's leaders are divided, and debating

Get article background

THE further the Americans and British have got mired in Iraq, the harder it has become for the French to conceal their sense that their opposition to the war has been vindicated. So far, despite lingering bitterness at their treatment by George Bush's team, Jacques Chirac's have put on an air of studied non-triumphalism, and a public tone of reconciliation. Franco-American difficulties “have been essentially superficial,” said the president in his usual July 14th television interview, saying the media had exaggerated them. But though all quarters of his administration share a remarkably unshaken view that France took the right line, there is a vigorous internal debate over how now to manage, or heal, the soured relationship.

Public opinion has been astonishingly uniform in its support for Mr Chirac's opposition to the war. Now, every unfound weapon of mass destruction, every unfounded intelligence claim, every American casualty, only adds to this view. “We said that winning the peace was going to be much harder,” Dominique de Villepin, the foreign minister, told *Le Figaro* recently: “We see day after day just how difficult the situation is.”“Iraqi weapons, lies and manipulations,” crowed a recent headline in *Le Monde*.

But has France paid a price in other ways? Condoleezza Rice, Mr Bush's national security adviser, reportedly urged his administration to “punish France, ignore Germany, forgive Russia.” And the French have indeed been snubbed. President Bush left the G8 summit at Evian early. This week, Silvio Berlusconi, Italy's pro-war prime minister, got to ride about the Bush ranch in Texas, while Mr Chirac has been firmly told not to expect an invitation “any time soon”. Yet an evaluation by the French foreign ministry suggests that the economic damage amounts to little more than a drop in wine sales and American tourists. France's exports have been hurt more by the strength of the euro than by “French-bashing” in Washington.

Beyond the odd political gesture, the French do not believe that they have paid much price at all. Yes, it may be more difficult to get their voice heard in Washington: certainly they get a frosty reception at the Pentagon. But relations with the State Department are reasonable: they have been working well, for instance, with John Bolton, Mr Bush's under-secretary of state for arms control, on Iran. Yes, the Americans may well ignore the United Nations Security Council, a crucial forum for the exercise of French

influence. But that is seen less as a punishment for France than a policy that the Bush administration was determined to pursue anyway.

Where does this leave the relationship? French policy now towards America appears to consist chiefly of agreeing to disagree. Mr Chirac utters soothing words about friendship, while urging the creation of a “multipolar world”, a term that by itself antagonises the Americans. This seems to mean supplying Europe with the means and the will to stand up to America. Since the reality is a unipolar world, in which American power outweighs European, and about which some Europeans are not at all uncomfortable, this implies quite a project. Less controversially for other Europeans, the French president also reaffirms his line that multilateral rules should apply to all, Americans included.

Both elements reflect a deep French unease at the idea of unrivalled American power, commercial, political and military. These misgivings have a long history. As one senior French official puts it, “The Iraq war did not create differences between America and France, but exposed ones that were masked for years and that intensified after the fall of the Soviet Union.” Indeed, and barely masked, at that: think back to de Gaulle in the 1960s, or even to 1944, when he had to fight off plans to install an Allied military government, not a French one, in liberated France.

This unease is widely shared. But beyond it there is disagreement behind the scenes on what now is to be done. Crudely, the hard-line position, based largely around President Chirac, at the Elysée, is that the French should hold firm, let events play themselves out in Iraq, and rely on France's informal alliance with Russia and Germany to give it a global voice. The other view, found in parts of the foreign ministry, is that France was right to oppose the war but overplayed its hand diplomatically; that it cannot depend on Germany and Russia alone, but must work with the Americans; and that it should act accordingly, for instance by offering to relieve American troops in Iraq.

For all his passionate promotion of the French anti-war position earlier this year, Mr de Villepin seems to be injecting some of this more conciliatory thinking into official policy, especially over the need to work with America on future security threats. In general, however, it is the harder line from the Elysée that prevails. Much attention is now being paid to strengthening European military capacity, and forging an inner core within an enlarged European Union, as a balance to American power.

The two views could find common ground on one immediate issue: helping the Americans in Iraq. “The more they get into a mess there, the easier it will be for France to be generous,” argues Dominique Moïsi, of the French Institute for International Relations. In some ways, the French would quite like to be asked for help, enabling them to appear magnanimous in spirit and be useful in practice. But not without a UN mandate. Whether Mr Bush could face asking, let alone agree to a UN banner, is another matter. The real long-term trouble for France may be its complacency about the depth of America's wounded feelings.

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About sponsorship

Germany's labour-market reforms

Something stirs

Jul 24th 2003 | BERLIN
From The Economist print edition

German unemployment is responding to Chancellor Schröder's measures

GREEN shoots are starting to show on the German economy. Tax revenues rose in the first six months of this year. The stockmarket was up 11% over that period, and analysts are increasingly hopeful. In May and June, for the first time in two years, unemployment (seasonally adjusted) fell substantially. Can it be that Gerhard Schröder's labour-market reforms are actually working?

Quite likely. Under a scheme set up three months ago, workers can earn up to *euro*400 ($450) a month without having to pay welfare contributions—usually a fifth of gross wages—or tax. Result: nearly 1m "mini-jobs", says the government, three times the number it expected. Many of these jobs probably existed on the side already, and have merely been legalised. But several hundred thousand are thought to be genuinely new.

Another scheme that cuts both taxes and red tape for those wishing to set themselves up as self-employed is also proving unexpectedly successful. It has produced 33,000 mini-companies—one person, earning less than *euro*25,000 a year—since the scheme began at the start of the year. No huge total, it is true, and no doubt it includes a good deal of previously undeclared activity; but still not far from the 40,000 expected for the whole year.

Both schemes sprang from the government-appointed Hartz committee on labour reform. Another Hartz proposal is just getting under way: the creation of public-sector agencies to employ the jobless and hire them out to private firms. So far the 550 new agencies have only 2,300 "temps" on their books, and the aim for year-end is modest: 40,000 workers, employed by 850 agencies, as against the hundreds of thousands envisaged by Hartz. But it is a start.

One reason for expecting it to take off is that—contrary to expectations—the new temps will earn well below normal trade-union rates. Last month, similar private-sector agencies reached agreement with the unions to pay 10-15% below the norm. But the new state agencies are already often paying a lot less than that. Unfair competition, say the private agencies; our people are mostly low-skilled long-term unemployed, say the state agencies, and hard to place. So they may be, but at least market forces, fairly or unfairly, are getting the chance to place them.

Those are the carrots. As for the sticks, to get the unemployed sooner back to work, since July 1st they have had to register as such as soon as they receive their notice. Previously they could wait months

before looking for a new job, and then get benefits backdated to the start. Now, failure to register promptly can result in benefits being severely docked. And refusing a reasonable new job, even at a lower wage, can mean they are stopped altogether.

A bill now before parliament would implement another Hartz proposal. Full unemployment benefit is now available for long periods: up to 32 months for people aged over 57. The bill would cut this to 12 months, or 18 for people over 55. And it would cut long-term unemployment benefit to the level of social-security benefits.

The government is now seeking to go beyond Hartz. A bill to ease job-protection rules for small firms also is before parliament. Mr Schröder has called for greater flexibility in the formerly taboo area of collective wage bargaining. And, to howls of horror, Wolfgang Clement, the economics and employment minister, recently suggested that his fellow-countrymen, who now have longer holidays and shorter working hours than in other developed countries, should work a bit more.

Will all this produce the 2m jobs in three years forecast by the Hartz committee? Mr Clement admits it won't; indeed, he fears the unadjusted unemployment figure, now 4.3m, could reach 5m next winter. Reform will take time to come into full effect, he says. But he expects unemployment to be cut “drastically” within four to five years. Though critics complain that the reforms do not go nearly far enough, Mr Schröder has achieved more over the past seven months than almost anyone thought possible.

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Spain's politics

Change at the top

Jul 24th 2003 | MADRID
From The Economist print edition

Aznar says he will quit. Zapatero may (or may not) have to. What now?

“I AM sure I won't be standing at the next elections; what I do not know is whether you will.” The prime minister, José María Aznar, caused uproar in the Spanish parliament on July 1st with his gibe at the opposition Socialists' leader, José Luis Rodríguez Zapatero. But it was fair enough. Mr Aznar has long said that he will quit the leadership of his People's Party before next March's general election, though he is still saying not a word to indicate whom he fancies as his successor. But is Mr Zapatero on the way out too?

After three years at the head of his party, he is plainly in trouble. The Socialists did not make all the gains they hoped for in local and regional elections in May, and an (alleged) corruption scandal cheated them of their one big prize, the Madrid region. Now, with only nine months before the election, senior party members are wondering if they have the right chief. In fact, he will probably survive until the election. The party has publicly rallied behind him: it cannot afford five changes of leadership in six years. But if it loses, his future is, at best, uncertain.

The Socialists lost power to Mr Aznar in 1996. The May elections gave them hope: they won marginally more votes than the People's Party. But they could have done so much better. Mr Aznar, and his party in Galicia, had grossly mismanaged last autumn's huge oil spill from the sunken *Prestige* tanker off that region's coast. Voters were massively hostile to his support for the war in Iraq. He has bungled labour-law reforms. But Mr Zapatero failed to capitalise on these blunders. And just as the Socialists and some far-left allies were about to take control of Madrid's regional assembly, two party members slipped away from the vote. The media accused them of taking backhanders in a building scandal. Mr Zapatero had them expelled from the party. The People's Party crowed—until some of itsmembers too were involved. The affair has burgeoned, far beyond the comprehension of most Spaniards, but one political result is plain: if this region's voting is restaged in October, as is likely, the Socialists cannot expect to fare well.

“It is the worse thing that could happen to us,” said a party spokesman. Could be. The 13 years for which the Socialists' last successful national leader, Felipe González, ran Spain ended in scandal. Here they are again. Critics say the youthful Mr Zapatero has not managed to build a wall between himself and the old guard of Mr González, who still exercises a shadowy influence. Affable and consensual, he has not stamped his personality on the party, they complain; he lacks the balls—as Spaniards readily put it—to unite what at times appears to be little better than an affiliation of regional parties.

Worse still for him, it was a Socialist clique in Madrid, known as Reform from the Base, that both gave him his slim victory as party leader at a congress three years ago and spawned the two fugitive regional-assembly members this summer. But there is still hope, say the faithful. There is time before the elections to claw back support and Zapa, as the rank and file know him, has only one visible challenger, José Bono, from Castile-La Mancha. Though Mr Bono did brilliantly there in May's elections, he recently swore fealty to Mr Zapatero, and many doubt he could thrive outside his idiosyncratic and uninfluential region. And if Mr Zapatero leads the Socialists into the election, but loses it? Party members say he would survive if the loss were not heavy. Well, maybe.

On the other side, too, little is certain. The People's Party must make up its mind about an heir to Mr Aznar at a congress in the autumn. Three heavyweights long led the betting: Rodrigo Rato, the finance minister and one of two deputy prime ministers; the other (and a former home minister), Mariano Rajoy; and Jaime Mayor Oreja, an earlier home minister until he was sent off to win the Basque region for his party. Mr Mayor Oreja failed there, but his fierce hostility to the ETA terrorists won applause throughout Spain (and this week's two ETA bombs on the Costa Blanca cannot have hurt him). Polls still show him a little ahead of the other two.

Maybe to no effect: far ahead of all three comes young Alberto Ruiz-Gallardón, who in May led his party to a notable triumph in the city of Madrid. Senior party figures have told him to bide his time. Mr Aznar, who is no lame duck, might choose his most faithful acolyte, the current home minister, Angel Acebes. But he could yet opt for Mr Ruiz-Gallardón. The youthful mayor of Madrid is no *Aznarista*, but he is a winner; and, after winning two elections, and two pretty successful terms of office, Mr Aznar would love a third victory for his party to set the seal on them.

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Italy's new laws

A good week for Berlusconi

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From The Economist print edition

One law on conflicts of interest, another on the media, and both to his taste

AFP

One demonstrator was less content

IT REALLY was a splendid week for Silvio Berlusconi. He was welcomed with open arms to George Bush's ranch in Texas. Back home, lawmakers approved two bills that will let him claim his government has tackled the interlinked problems of media concentration and the conflict between his roles as head of Italy's government and owner of its biggest commercial television network. Finally, two lawyers, Ilda Boccassini and Gherardo Colombo, who had prosecuted him for allegedly bribing judges before he came into politics, were put under investigation and now risk being put on trial themselves. No wonder the famous grin was even wider than usual.

The bill on conflicts of interest went through the lower house on July 22nd, then at once back to the Senate, which had already approved it, for a technical amendment. It will be there some time, but so ends a long search for a formula that would protect Mr Berlusconi's legitimate financial interests while ensuring that they did not interfere with his running of the country. And the search, which began in 1994, during his first government, has ended badly.

The bill contains fine-sounding words: high government officials must devote themselves “exclusively to the care of public interests”. But the devil is in the detail. Holders of high office may own, but not run, companies. Given that Mr Berlusconi withdrew in the mid-1990s from the day-to-day management of his empire, he can carry on as before. And what if, perish the thought, he does, as prime minister, take some decision that unfairly favours his interests? This bill would impose no penalty on him. It tells Italy's antitrust watchdogs to keep an eye out, but if they detect wrongdoing all they can do is report it to parliament—where, at present, Mr Berlusconi's friends are solidly in the majority.

On the very day the lower house was approving this toothless measure, the upper house was passing a communications bill that could scarcely demonstrate better the need for something more stringent.

Mr Berlusconi controls all three of Italy's biggest privately owned channels. As head of government he can also influence the output of RAI, the state-owned broadcasting body, which also has three. The risks in that were made plain this month when RAI's main evening news bulletin failed to show the notorious incident when Mr Berlusconi insulted a German member of the European Parliament.

To his followers, the communications bill is a big step towards greater competition and diversity. It opens the way for the implantation of digital terrestrial television in Italy from 2006; and that, they say, will push up the number of channels and correspondingly diminish Mr Berlusconi's grip on what Italians can watch.

Maybe, but other clauses in the bill risk so enhancing the power of his media empire in the meantime that such considerations will be irrelevant. The bill drives a coach and horses through a ruling by Italy's highest court that Mr Berlusconi's Mediaset group should transfer one of its channels to satellite. It will boost TV revenues by allowing more sponsored promotions, in which presenters interrupt their work to exalt the merits of anything from garden furniture to patent laxatives. It replaces today's 20% limit on the percentage of total TV advertising (and similar) revenues that any one TV group can earn, with a 20% limit over all media for any one media group.

Press proprietors say all this will eat further into their advertising earnings and make their newspapers,

many critical of Mr Berlusconi, vulnerable to takeover. And lo, another provision in the bill frees even multi-channel TV companies—if only, thanks to a late amendment, from end-2008—to buy up newspapers.

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Running Bosnia

The viceroy rules, OK? Not everyone thinks so

Jul 24th 2003
From The Economist print edition

Bosnia is being run like 19th-century India. Too like, some say

CAN the natives be trusted to run their own country? Do they even want to? Almost eight years after the end of the war in Bosnia-Herzegovina, a paper from a Berlin think-tank, the European Stability Initiative (ESI) has caused a hoo-ha there with its characterisation of today's Bosnia as a European "*raj*", as the British describe their imperial rule in India.

Under the Dayton Accord that ended the war in Bosnia in 1995, the 15 trustee nations of that accord appointed a "high representative" to oversee its implementation. Bosnia was divided into two entities: a Serbian one, and one for Croats and Muslims, or as they are now officially known, Bosniaks. For several years, Bosnia remained deeply unstable: fighting stopped, but there was little other progress towards normality. Gradually, in an attempt to move ahead, the high representative was granted—by those who appointed him, not the Bosnians—more and more power.

Under today's holder of that office, Paddy Ashdown, a former leader of Britain's Liberal Democrats, "the Bosnian protectorate", says the ESI, "echoes the liberal imperialism of the past." To the institute, the way it is run has "more than superficial" affinities with the British *raj* in 19th-century India.

Certainly Lord Ashdown and his predecessors have increasingly often sacked inept or corrupt officials, indeed elected politicians. They have forced through reforms in the judiciary, the economy and the media. They have set up a customs service that works. But are these powers still necessary? No, says the ESI.

Gerald Knaus, its Austrian director, says that, above all, Bosnia suffers from an image problem: to outsiders—and a good many Bosnians—it is a corrupt place, prey to organised criminals, and, thanks to its complex machinery of government, virtually impossible to govern. In contrast, says Mr Knaus, it is really a success. "There is no threat from outside, it has free and fair elections, it is peaceful and has relatively little crime." Refugees are returning home, and many who stay away do so not because of fear or difficulties in getting their property back, but for economic reasons. The real problem, says Mr Knaus, is a moribund economy, with 25-40% unemployment; but this should be tackled by Bosnia's elected leaders, not a foreign viceroy.

Much of the liberal press in Sarajevo, which initially supported the increased powers of the high representative, has given sympathetic coverage to the ESI report. Most of Bosnia's politicians have been curiously quiet; maybe the problems, economic ones especially, are so large that they would rather someone else took responsibility for them. Indeed this week it was revealed that Bosnia's state institutions were over budget by a quarter in the past six months.

Lord Ashdown has reacted furiously. British rule in India, he says (erroneously), existed to extract India's wealth for Britain's benefit. In contrast, the international community has poured *euro*17 billion ($19 billion) into Bosnia since its war ended—and, he may well think, though he did not say it, so much has been stolen or squandered that those who put up the money can well claim a lot of control over what happens to it. Anyway, he says, more and more tasks are being handed over to Bosnian leaders, even if they are not yet ready to take full control.

Whether that thrills their fellow-citizens one can doubt. Polls show that most Bosnians think little either of their own politicians or of many of the foreigners who help govern them. They also show that two-thirds of young people would like to emigrate. Still, many think that, on balance, they would sooner have a benevolent despot to push through change than have their own leaders in full control. “On their own”, says Tihomir Loza, a Bosnian analyst, “our politicians would do nothing. They're mostly colourless, mid-ranking, shady businessmen.”

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Charlemagne

The road to perdition

Jul 24th 2003
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Are the EU's financial controls so exasperating that they force its own staff to evade them?

THE European Commission has never fully recovered from the corruption scandal that forced its then members to resign en masse in 1999. Stories of false contracts, lax financial controls, complacency and cronyism crystallised much of the public distrust of the "Brussels bureaucracy". Romano Prodi, who took over as head of the commission later that year, promised that henceforth there would be "zero tolerance" of corruption. But now a new scandal has broken, containing several of the elements that brought down the Santer commission four years ago.

Earlier this year the European Union's anti-fraud office, OLAF, alerted French prosecutors to a "vast enterprise of looting" at Eurostat, the commission's statistical service. Senior managers, said OLAF, had set up secret bank accounts and funnelled EU cash though them to contractors, including companies that they themselves had helped set up and whose boards they sat on. The worth of these contracts was sometimes artificially inflated; others may have been for work that was entirely fictitious. Over *euro*900,000 ($1m) was siphoned off into "black accounts".

The commission was first alerted to trouble at Eurostat years ago—and barely stirred. One official who complained about dubious contracts was sucked into a costly legal action. When she asked the commission for support, it was refused; she later had a nervous break-down, retiring on an invalidity pension at the age of 37. Almost three years passed before Michaele Schreyer, the budget commissioner, read one crucial memorandum on the goings-on at Eurostat. The commissioner nominally in charge of it, Pedro Solbes, has refused to accept responsibility, telling the European Parliament this month that he could not be held accountable "for things I didn't know about". The unimpressed parliamentarians have now summoned Mr Prodi to testify before them in September. Belatedly, the commission is getting tough: on July 23rd it announced that it had cancelled contracts with four of Eurostat's preferred partners, besides launching an investigation into which other commission departments might have been running black accounts.

So is this just further confirmation of the popular prejudice that the Brussels bureaucracy is rife with corruption and incompetence, a gurgling drain choked with European taxpayers' hard-earned cash? Unsurprisingly, things are a bit more complex than that. It is not certain that the black accounts set up by Eurostat were used for the personal enrichment of the officials involved. The most pernicious activity so far proven is illicit funding of a staff volleyball team. Officials familiar with the investigation think that these accounts may originally have been set up to give Eurostat a way to pay for research quickly, without going through the commission's cumbersome procedures. But there is also a strong suspicion that, even if the secret accounts were at first intended to serve a relatively virtuous purpose, they may have been abused as time went on. As one investigator puts it, "Once you step outside the established procedures, you lose the presumption of innocence."

The whole tortuous tale shows that it is not true that the commission is indifferent to fraud. Alas, things are worse than that. The commission has elaborate procedures to prevent financial irregularities. But these have not just proved insufficient; indirectly, they may actually have made the problem worse. Driven crazy by the amount of form-filling and box-ticking required of them, commission officials have got used to cutting corners. Further investigations may demonstrate that Eurostat's black accounts were by no means unique in the EU's bureaucracy. And once people get into the habit of doing things off the books, the road to perdition is wide open.

There is little doubt that in some ways EU financial regulations are ridiculously cumbersome. Aid projects run by the commission have been notoriously slow in delivering the money they promise to worthy causes. Officials in the commission's research department complain that many top European scientists

cannot be bothered to apply for EU money, because of the number of bureaucratic hoops they have to jump through. “Nobody can really follow all the rules,” complains one senior official, “there are just too many. It took three years for my department to find a way to buy in outside data.”

Yet while the commission is top heavy with rules and regulations, it lacks a culture of responsibility. As Mr Solbes's words to the European Parliament demonstrated, nobody seems willing to say “the buck stops here”. Arguably, he, whose most pressing task is to keep life secure for the euro, should have been able to rely on his senior officials to crack down on malpractice in a statistics bureau in Luxembourg. But an official familiar with the Eurostat investigation argues that “the big problem is that there is nobody in the commission who has the responsibility and power to say that a given practice is unacceptable or a given person must be fired.” Instead the buck is passed, memorandums are left unread and investigations drag on for years—until the press or the European Parliament get hold of them.

Plus ça change...

After the last big scandal, the European Commission promised a radical overhaul of the way it worked. Fresh procedures were put in place, a new anti-fraud office was set up, and whistle-blowers were promised special protection. But many of the conclusions of the external investigation into that scandal still ring uncomfortably true. It argued that “the multinational character of the commission itself lies at the heart of some of its problems”, creating not only “differences in the interpretation of procedures” but also “unhealthy national allegiances that can cut across the formal structures of the commission”. The report concluded that it was difficult to find anyone in the commission with “the slightest sense of responsibility” for financial control. Four years on, how much has really changed?

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Politics

Death of a scientist

Jul 24th 2003
From The Economist print edition

Both the government and the BBC are in trouble over David Kelly's suicide

WHEN prime ministers are in trouble, they call for a judge to bail them out. Tony Blair's decision to ask Lord Hutton, an appeal court judge, to hold an urgent inquiry into the death of David Kelly (above), an adviser to the Ministry of Defence (MOD), provides the government with a breathing space.

Mr Kelly killed himself after the government revealed his name as the source of the BBC'S report that the government had “sexed-up” intelligence information about the threat posed by Iraq. But this is more than the personal tragedy of a distinguished scientist crushed between quarrelling powers. Mr Kelly's death has raised the stakes for a government which is losing public trust and a public-service broadcaster whose journalism is under attack.

The terms of the judicial inquiry—“urgently to conduct an investigation into the circumstances surrounding the death of Dr Kelly”—have been narrowly drawn. But Lord Hutton, a former Northern Ireland chief justice known for his toughness, has made it clear that he alone will decide how far his investigation should go.

The protagonists

Name	Job	Accused of
Tony Blair	Prime minister	Letting Campbell get out of control
Alastair Campbell	Prime minister's chief spin-doctor	Doctoring dossier on WMD, launching witch-hunt for mole
David Kelly	Chief adviser to defence ministry's proliferation and arms control secretariat	Leaking to Gilligan, denying it to MPs
Andrew Gilligan	BBC journalist	Misreporting interview with Kelly
Gavyn Davies	BBC chairman	Defending shoddy reporting
Geoff Hoon	Defence Minister	Allowing Kelly's name to be leaked
Sir Kevin Tebbit	Permanent secretary at defence ministry	Ditto
Pam Teare	Head of public relations at defence ministry	Leaking Kelly's name
Lord Justice Hutton	Top judge, chairing inquiry	Nothing, yet

Source: *The Economist*

The story goes back to Mr Blair's unprecedented decision to publish a 50-page intelligence dossier on Iraqi weapons of mass destruction last September. Intelligence material is not normally published, but these were not normal times. Most people did not want to go to war, and Mr Blair hoped the intelligence material would strengthen his case.

The dossier was written by the Joint Intelligence Committee (JIC), which sets the agenda for the intelligence services. Some of those involved in drafting it were unhappy that intelligence information should be used in this way. Their discomfort was sharpened by the government's publication of a second dossier, neither written nor authorised by the JIC, just before the outbreak of war. This mixed genuine intelligence with bits of an old academic thesis, lifted without attribution.

At the same time, relations between the government and the BBC had been deteriorating. The BBC's reporting on the war had been sceptical: in tune with popular attitudes, perhaps, but not what the government wanted. When, in the chaotic aftermath of the war, Andrew Gilligan, a defence correspondent, said that ordinary Iraqis felt more unsafe than they had under Saddam Hussein, the government was furious. Alastair Campbell, Mr Blair's director of communications, wrote the BBC a series of letters accusing it of anti-war bias. BBC journalists thought he was trying to intimidate them.

Then, on May 29th, Mr Gilligan broadcast a particularly explosive story. The September dossier had claimed that Saddam Hussein had weapons of mass destruction that could be launched within 45 minutes. The government, he said, knew that the claim was false and insisted that it should go in despite reservations by the intelligence agencies. Three days later, in an article in the *Mail on Sunday*, he named Mr Campbell as responsible for inserting the 45-minute claim.

The government's first reaction was an indignant denial. It then fielded John Reid, the cabinet's leading bruiser, who claimed that “rogue elements” in the intelligence services were seeking to damage the government. Giving evidence to Parliament's Foreign Affairs Committee, Alastair Campbell branded the BBC story “a lie”. All the heads of the intelligence agencies put out statements exonerating the government. Not everybody on the committee was convinced. It split along party lines: Downing Street was cleared of “sexing-up” the dossier only on the casting vote of its Labour chairman, Donald Anderson.

The hunt for the mole intensified. In an oddly worded statement on July 8th, the MOD said that an official had come forward to admit that he had had an “unauthorised” meeting with Mr Gilligan. It said that the official was not a member of an intelligence agency, and had not been involved in drawing up the intelligence parts of the dossier. Later that day Geoff Hoon, the defence secretary, wrote to Gavyn Davies, the BBC chairman, naming the official in confidence, and challenging the BBC to confirm that he was its source.

The BBC refused to, claiming that the official named did not correspond “in some important ways” to their source. This was wrong, and it encouraged the government to out Mr Kelly: by revealing that he was not an “intelligence source” nor in a position to know if the government had interfered with the intelligence dossier, it would undermine the BBC's story.

At a meeting between Mr Hoon and his permanent secretary, Sir Kevin Tebbit, on July 9th, it was agreed that if a journalist came up with the right name, the ministry would confirm it. But both the MOD and Downing Street went further. They dropped hints to journalists about the source's identity, including that he had been a United Nations weapons inspector. Since Mr Kelly had talked to plenty of journalists, some of them soon guessed his name, and Pam Teare, the ministry's chief press officer, confirmed those guesses. Mr Kelly was then called to give evidence to the Foreign Affairs Committee. “Have you ever felt like the fall guy?” asked one of the committee's members. “You have been set up, haven't you?”

On July 17th, Mr Kelly went for a walk in the woods near his Oxfordshire home and killed himself. The BBC subsequently admitted that he was the mole.

“Who killed David Kelly?” is the question behind much of the press coverage following his death—and behind conversations over countless dinner tables. The BBC, for using him and misrepresenting him? The Foreign Affairs Committee, for humiliating him when it took evidence from him? The government, for outing him? The “dark actors” Mr Kelly referred to in an email he sent shortly before he died? Lord Hutton's report should reveal more about this strange story. Many of its protagonists will have an uncomfortable summer waiting for it.

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David Kelly

Mystery man

Jul 24th 2003
From The Economist print edition

David Kelly worked with secrets. They surround his death, too

DAVID Kelly liked facts, not spin. The soft-spoken scientist was one of Britain's top specialists in biological and chemical weapons. Unusually for scientists dealing with secrets, he talked to journalists, not because he wanted the limelight, or to tweak the story, but because he liked explaining things. He wanted outsiders to understand the fiendish intricacies of lethal bugs and poison gas.

Born in Wales, Mr Kelly trained as a microbiologist, gaining a doctorate from Oxford. His early work was on the use of viruses in pest control. In 1984 he moved to Porton Down, Britain's secret laboratory for chemical and biological warfare. That, he said, was the “best decision of my life”. It was much more exciting than academia, and he said he enjoyed “every minute” of his work there.

He moved on to work as an adviser to the defence ministry and the foreign office. He was not in MI6, Britain's foreign intelligence service, but he knew plenty of secrets, and helped to make sense of the nuggets the spies gathered. He debriefed defectors, from the then Soviet Union and later from Iraq.

His work left him in no doubt about Iraq's determination to acquire weapons of mass destruction. He went there 37 times as a United Nations weapons inspector, and frequently interviewed what were in effect his Iraqi opposite numbers, coping coolly with their hostile behaviour. He cared passionately about forcing Iraq to give up its weapons, and preventing it from acquiring more of them.

He was confident, he told the Foreign Affairs Committee, that the September dossier on the threat from Iraq was correct. But his briefings of Mr Gilligan and other journalists suggest unease at the way the politicians were using intelligence.

After Mr Gilligan broadcast his May 29th story, Mr Kelly found himself in an exceedingly difficult position. But he was no stranger to pressure, and seemingly had a strong personal hinterland to help him cope with it. He had a happy home life with three grown-up daughters. He was looking forward to grandchildren, and was an enthusiastic gardener. He was a practising Bahai—a gentle faith that preaches reconciliation and respect.

He was found dead in a wood near his Oxfordshire home on July 18th, having slit his wrist. Friends and colleagues find it mystifying as well as tragic.

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Accusations and denials

Who said what

Jul 24th 2003
From The Economist print edition

May 29th, Andrew Gilligan
BBC*"Today" programme:*
"We've been told by one of the senior officials in charge of drawing up that dossier... that actually the government probably knew that that 45-minute figure was wrong, even before it decided to put it in...A week before publication date for the dossier, Downing Street ordered it to be sexed-up."
June 1st, Andrew Gilligan
Mail on Sunday:
"I asked him how this transformation happened. The answer was a single word. 'Campbell.' What? Campbell made it up? 'No, it was real information. But it was included against our wishes because it wasn't reliable.'"
June 25th, Alastair Campbell
to the Foreign Affairs Committee:
"It is a lie, it was a lie, it is a lie that is continually repeated and until we get an apology for it I will keep making sure that Parliament, people like yourselves and the public know that it was a lie."
July 6th, Gavyn Davieson
behalf of the BBC governors:
"Although the guidelines say that the BBC should be reluctant to broadcast stories based on a single source...they clearly allow for this to be done in exceptional circumstances. Stories based on senior intelligence sources are a case in point...The board is satisfied that it was in the public interest to broadcast Mr Gilligan's story."
July 15th, David Kelly
to the Foreign Affairs Committee:
"I do not see how he [Andrew Gilligan] could make the authoritative statement he was making from the comments I had made.""I was not involved in that process [of drafting the dossier] at all."
July 22nd, Tony Blair
on the claim that he had authorised the leaking of Mr Kelly's name:
"That's completely untrue. I assure you that we made great efforts to ensure Dr Kelly's anonymity."

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BBC and the government

Poor reception

Jul 24th 2003
From The Economist print edition

The BBC faces an uncertain future. Good

Get article background

WHO should regulate the BBC? And who should pay for it? Until recently, the status quo looked unshakeable. On important questions, like whether its journalists were biased, the BBC would regulate itself, just as it always has. And when its charter comes up for renewal in 2006, few doubted that it would gain another juicy increase in the licence fee, the annual tax paid by every television-owning household in Britain, which currently stands at £116 ($186).

Since the row over Iraq's arsenal, those questions look more interesting and open. The BBC has never managed complaints well: robust self-scrutiny is not a strong point of its bureaucratic, inward-looking culture. The final court of appeal is the 11-strong board of governors. But the governors also appoint the BBC's director-general, which critics say makes them too close to the organisation to be able to regulate it properly.

The government certainly feels that its complaint over Andrew Gilligan's reporting was badly handled. The governors leapt to Mr Gilligan's defence, largely echoing the BBC management's line and admitting only minor procedural flaws in the reporting of the story. In retrospect, the governors might have done better to wait for a formal complaint from the government and then to investigate it with visible thoroughness, rather than rushing to support their own. Reports suggest that some have since voiced private doubts, but too late to dispel government fury.

The most likely alternative to the current system would be to widen the remit of Ofcom, a new communications industry regulator that takes over from five existing bodies at the end of this year. One of these, the Broadcasting Standards Commission, does deal with complaints about the BBC on issues of taste and decency (ie swearing and nudity), but not the most crucial subject of journalistic bias.

Although the BBC would resist Ofcom oversight furiously, the day-to-day difference would probably be minor. Ofcom aims to be a light-touch regulator. But, crucially, a complainant with a serious grievance would have an umpire to turn to.

The much bigger question is about future financing. Technology is steadily undermining the BBC's main justification for the licence fee: that as everyone benefits from at least some of its services, everyone should pay. Viewing figures are dropping steadily as viewers turn to digital television, which now reaches nearly half the households in the country. The BBC's response so far has been to provide ever more services. Sometimes this is uncontentious—for example in digital radio, now booming, which would never have taken off without BBC backing. But other offerings are controversial—internet-based education, for example, or a specialist history channel that competes directly with an independent commercial outfit. An outside regulator could stop the BBC from treading on so many private-sector toes.

Falling viewing figures have not created a financial problem for the BBC, since thanks to the government's generosity the licence fee has been rising at 1.7% above inflation since Labour came to power. But big rows with politicians could undermine the chances of a similarly lavish settlement in 2006.

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Polls

It's bad, but not that bad

Jul 24th 2003
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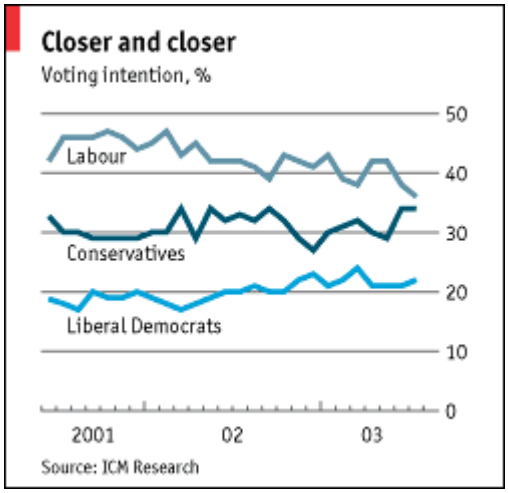
Labour is less popular than it was—but still unusually strong

LABOUR'S dominating 17-point lead in the opinion polls over the Tories 18 months ago has shrunk to barely two points. The government is suspected of deceiving the nation over war with Iraq and of driving a decent man to suicide. Tony Blair is losing trust. The newspapers are (mostly) out to get him. Support for the government (see chart) is at its lowest point since it came to power, save for a blip over fuel-tax protests in 2000. Yet it is Labour's popularity, not its unpopularity, that is remarkable.

Every government since 1945 has experienced a big drop in support in the middle of a parliament, even though many of these governments went on to win a subsequent election. Only Mr Blair's government has bucked this trend. Two years after it came to power in 1997, it was a stunning 17 points ahead. The fact that it is now only marginally ahead suggests that politics may be beginning to return to normal.



Most post-war governments' poll-ratings have risen in the run-up to an election. If that happens to this government too, then it is on course for a comfortable majority at the next election. Mr Blair must, however, be worried about the sharpness of his party's decline in the polls. Labour's support has fallen by nearly a quarter, from 47 points to 36 points, since January 2002 according to ICM. The Conservatives and Liberal Democrats, meanwhile, are both up four points from 30 to 34 and 18 to 22. If Labour's decline continues for much longer, worry will turn to panic.

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British Airways

Terminal

Jul 24th 2003 | HEATHROW
From The Economist print edition

The world's favourite airline? Not any more

Get article background

IT is always a bad omen when a business calls in the police to protect its staff from their customers. So when a cordon of bobbies formed in front of the British Airways check-in desk at Heathrow's Terminal 4 on the afternoon of July 21st, passengers who had been waiting for several hours—or in some cases several days—to board flight BA223 to Washington, DC, sensed that something was up. They included a posse of irate American golfers, and your unfortunate correspondent.

Officially, things were getting back to normal after a short, unofficial strike by around 250 BA check-in and sales staff, who walked out last weekend in protest at the introduction of an electronic clocking-on system. The staff say the system will enable managers to fiddle with shift patterns. Maybe it will. But it will also allow managers to use staff more efficiently and to put a stop to skiving that currently goes undetected. The walk-out obliged BA to cancel around 520 flights and divert some to other airports.

BA may well be in the right in the clocking-on dispute. But its reaction to the strike, which combined duplicity and incompetence, was abysmal. Its website and help-line assured passengers throughout the day that normal service had been resumed—an illusion that was dispelled as soon as they drew up in the airport car-park. Thousands of people were being held outside to prevent a crush, and most had to squat on their suitcases. A couple of marquees had been erected. Harassed staff distributed sandwiches and drinks. The airport chaplain wandered around looking even more forlorn than the passengers.

Inside, it was worse: the sandwiches were free only for travellers who had been waiting overnight. BA223, it transpired, departed after only a relatively short delay, but it left what seemed like most of its passengers behind: by the time they were admitted to the terminal the schedule and crews' rosters obliged it to take-off. So it went half-empty. Then they were left to stew for hours, as bucks were passed, the police were called and management hid. Eventually they were told to collect accommodation vouchers outside, which turned out not to exist. Then they were packed off to hotels, unsure when they would get to go home or on their holidays.

Most of those in the queue and the car-park bore all this stoically; some even seemed to be enjoying the un-British camaraderie and the chance to exhibit a little Blitz spirit. But nobody was keen to fly BA again, or to recommend it.

Like other airlines, BA is still recovering from the combined squeeze of September 11th, the economic downturn, SARS, the Iraq war and the march of the low-cost fliers. It has led the way for other European carriers in, for instance, adopting the low-cost carriers' web-booking systems to offer a range of flexible fares. At off-peak periods on short-haul routes, BA is sometimes as cheap as the low-cost competition.

The clocking-in system is a tiny element in its survival plan, which also involves broad restructuring and deep job- and cost-cuts, and had seemed to be working. In the past two years BA has slashed one in four jobs—about 13,000 in all—without a whiff of labour trouble. Last summer, side-effects of this were showing up, with a shortage of ground staff routinely delaying departures at Gatwick by one hour most afternoons. There have been some warning signs this year, with a high rate of sickness causing the airline to hire in aircraft and crew to fill gaps. Rising absenteeism is a sure sign of stress in an organisation that is contracting. But the big mistake was to introduce a new working practice at the start of the summer quarter when the airline makes all its money.

The previous chief executive, Bob Ayling, never really recovered from a strike by cabin crew in the

summer of 1997, which hit the airline's reputation and profits very badly, although he lasted nearly three more years. Today's tougher market means the stakes are higher and the game is quicker. The airline's shares fell 5% at one point on July 23rd after the current chief executive, Rod Eddington, observed that the strikes could have cost tens of millions of pounds in revenue.

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Saving pictures

Pink in the face

Jul 24th 2003
From The Economist print edition

Britain's rich are selling their pictures, and nobody knows quite what to do

THE announcement of the biggest grant ever for buying a picture should have been an occasion for celebrating Britain's commitment to art. Instead, the news that the Heritage Lottery Fund (HLF) had agreed to give the National Gallery £11.5m ($18.4m) to help it buy Raphael's “Madonna of the Pinks” from the Duke of Northumberland, and thus stop the paperback-sized painting from being sold to the Getty Museum in California, served only to highlight the muddle-headedness of the government's policy towards buying pictures for public collections.

Britons are flogging their pictures faster than ever. That's partly because, as the world's rich get richer, auction prices keep rising, while Britain slides down the wealth league. Inheritance-tax laws were tightened in 1998, and tougher regulations make maintaining old houses ever more expensive. The Historic Houses Association believes that a quarter of repairs to British historic houses in private hands are now being funded through such sales.

Two seascapes by Claude-Joseph Vernet that once belonged to Clive of India were recently sold for £2.4m to help pay for repairs to Powis Castle; Sir Joshua Reynolds's portrait of Mary Wordsworth, in the same family since 1949, was sold for £2.7m, five times its estimate, for the same reason only last month.

In 1999, Botticelli's “Venus” was taken to Fort Worth, Texas, in its own first-class seat, only to be returned when the picture was acquired from the Earl of Wemyss and March with help from the HLF by the earl's neighbourhood museum, the National Galleries of Scotland (NGL). That was most unusual. Many recent sales have been to private European and American buyers, and the works quickly leave the country.

The dilemma for British museums and galleries is twofold: without knowing what will become available, how to decide which are the best works to buy, and then how to fund their purchases. Both are resolutely ad hoc. The National Gallery has 20 pictures which, like the Raphael, are on loan and could be sold at any time. Yet most museums focus on the problem only when a work is threatened with export.

This year alone, the HLF, the Scottish Executive and the National Arts Collection Fund put up £11.6m so that the NGS could acquire one of the new Duke of Sutherland's five Titians, “Venus Anadyomene” and help him pay his inheritance-tax bill. A private donor gave the Tate £12.5m to secure “The Portrait of Omai” a show-stopping canvas by Reynolds, of a handsome young Tahitian who cut a swathe through British society in 1774, charming titled ladies who wondered how far his tattoos stretched. Both were about to go abroad.

But that £11.5m may not be enough to stop the tiny Raphael leaving Britain, even if the National Gallery is able—as it says it is—to raise the £9.5m it still needs before the stop on the picture's export permit expires on August 27th. The Getty has offered the duke £34.9m. The National Gallery has been advised that the capital gains tax payable on the sale will be so high that an offer of £21m should be more than enough to keep the painting in Trafalgar Square. The matter may yet end up in court.

When the threat arises that a particular picture might leave the country, national self-esteem demands that it should be saved. But given £11.5m to spend on public art, would most Britons spend it on one tiny Italian painting? Probably not. In his budget speech, Gordon Brown, the chancellor of the exchequer,

made passing reference to reviewing the whole system. Though presumably he does not envisage a return to 1838, when the only way that another Raphael, “St Catherine of Alexandria” could be saved for the nation was for the then chancellor to dip into his own pocket and buy it himself.

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Call centres

The stampede that isn't

Jul 24th 2003
From The Economist print edition

Britain's call centres are not all rushing off to India

IT'S a familiar and sorry tale, and the pink inflatable elephant that set out from John O'Groats this week will be keening it all the way to Lands End. Here was a new British industry, the call centre—the place that tells you telephone numbers, fixes your car insurance or takes your travel booking. Okay, it can be a pain, when it rings you up at 9am on Sunday to sell you double glazing. Okay, it pays starvation wages to headsetted zombies stacked in some vast ex-warehouse in Motherwell or Gateshead like battery hens. But jobs are jobs, and here they were in plenty to replace steel, coal or metalbashing. And barely are they set up than the whole industry is about to decamp to India! A sorry tale indeed—except that much of it is myth.

With six other staff for every ten agents—actual head-set wearers—call centres employ over 3% of workers in northern England and Scotland, the areas worst hit by industrial decline, and now most favoured for big new centres. Notably, they have brought new jobs for women; there weren't many female shipbuilders. They mostly pay slightly less—£13,000-14,000 a year for a rank-and-file agent—than in the south, but still far more than in India.

The Communication Workers' Union—the elephant is theirs—and other angry unions such as Unifi and Amicus MSF are alarmed by recent moves by some big companies. BT has 17,000 employees at its British call centres. But by January it will have 2,200 in Delhi and Bangalore, where pay levels are 70-75% lower—and labour eats up two-thirds of any call centre's costs. Other big firms already in India or on the way include BA (2,400 call-centre jobs there), HSBC, Tesco, Thames Water, insurers Prudential and Aviva, Powergen. Many more are looking. And though BT swears no employee in Britain will lose his job, call-centre work that it outsources here will shrink.

But though there is a move, there is no elephantine stampede. And though the once explosive growth of British call centres has slowed, it has not stopped. The figures in the business are fuzzy, but ContactBabel, a consultancy, reckons that last year Britain had 660,000 call-centre workers and this year there will be 5% more. In a survey of members by the Call Centre Association, two-thirds of respondents said their workforces had grown in the past 12 months, and 45% expected growth in the next 12. Aviva shocked its several British call centres this year with plans for a new 1,000-worker centre in Bangalore. But when Norwich Union, part of the group, relocates 750 call-centre staff, they will move merely from central Norwich to a new business park on the outskirts.

Why will the whole business not go abroad? One reason, says Paul Liptrot, boss of *Call Centre Europe*, a leading trade magazine, is government. Local councils are rushing to set up call centres, and it is hard for Muggletown council to tell its voters it is setting up jobs in Mumbai. Another reason goes far beyond politics. BT can chivvy late payers, laptop-makers can run help-lines, from thousands of miles away, but in many matters—the lights in the high street or a car crash there—firms need to know what's happening locally.

Ask Cornhill Direct. Its 300-agent call centre in northern Bristol, the biggest of its three there, corrects a couple of myths. One, it is there, not in Glasgow: although call-centre jobs make up a higher proportion of the total in thinly-populated Scotland and northern England, southern England has more than twice as many call-centre workers as Scotland. Two, warehouse or hen-crate it is not: the office is not 20 years old (and you can find brand-new ones being built in many parts of Britain), and the space is ample.

Pay is little above northern levels, and the pressure is clear: 30 minutes for lunch, two ten-minute breaks before and after, at peak times only ten seconds between calls. But the firm recruits easily, hiring only one in five of those who get through a preliminary telephone interview. Full-timers work “social” hours.

But around 70% of staff are women, a good many are university students, and 30% are part-timers. In that context, staff turnover of 30% a year is fair enough. These are not zombies.

Nor are they doing zombie work. Even when it is not cold-calling (Cornhill Direct does none), “outbound” calling—half this centre's work, one-third in many—is not easy. Nor is any but the simplest incoming call. Britain's call-centre industry was not quick to think this way, but training and skills are now its flavour of the decade.

And its best defence. India has bright staff, and employers can and do teach them British (or American) culture, soaps and Man U included, and encourage them to use English-sounding names. But it cannot get as close to the customer. Bristol speech is hard for many Britons, Estuary English a turn-off to some; and the idea that call centres go to Scotland for its trusted accent is tosh. But the accent of Chennai is more foreign than any of these; and, by the way, like any booming industry, India's call centres have roaring wage inflation, high staff turnover and some too-soon-promoted managers. If Britain's call centres can train to build on their advantages, they'll survive. On that, at least, trade unions and bosses are at one.

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University finance

Cash clash

Jul 24th 2003
From The Economist print edition

Government and the market send mixed signals to the universities

Get article background

UNIVERSITIES have seldom been more miserable. They are short of money. Government micro-management is intrusive and contradictory. And competition forces them to do things they dislike.

The financial position is certainly bleak. Around half of English universities will fail to break even in the coming year, up from a third this year, while a quarter admit to being in financial trouble; the real number may be higher. One way out is borrowing. A survey by HSBC, a bank, says that 11 are in a parlous position, with debts of more than twice total funds. Another 11 have borrowed so heavily that they would be at risk if student numbers fell.

The squeeze comes from all directions. Costs are set to increase by 6.9% above the rate of inflation in the coming three years, thanks to higher pension contributions, state-set pay scales, higher insurance premiums and other things out of the dons' control. The government is tweaking its subsidy, concentrating research funding on those that gain (rather arbitrary) top ratings. Although funding for teaching is up by 4%, for many universities this is tied to widening participation (in effect students with poor grades from school). Rising costs and no extra money for the mainstream students fray standards and tempers.

In the past, universities coped by spreading money ever-thinner. Now they are starting to chop small departments and courses that are expensive to teach, like science. Howls result. Durham University, facing a £4.5m deficit, made hasty cuts this summer, including its small but well regarded East Asia department.

A handful of globally competitive universities are surviving and thriving. The London School of Economics, which already gains the biggest chunk of its income from selling courses to overseas students, has teamed up with Duke, an American university, to offer business education. But a much larger number are struggling. Money-spinning ideas are hard unless you start with a strong brand. For the weaker universities, taking in a lot of foreign students is a sign of desperation: it deters British students, and can prove a volatile source of income.

The real reason for the universities' financial woes is the government's failure to pay properly for the jobs it wants the universities to do, such as social engineering. Getting half the under-30s in higher education—the government's target—means accepting poorly qualified students. These are much more likely to drop out. Only 1% of those with three As at A-level fail to complete their courses. The national average is a dismal 17%. At some places it is nearer a third. Yet universities are penalised if they don't take these students, and penalised if students come but then drop out. Weak students who stay are in effect subsidised by better ones, who will then find the university less appealing.

One way out of this might be consolidation, with poor, undersubscribed and badly run institutions going bust or being taken over by outsiders that can use their assets better. But the complicated laws that govern British universities make that hard. There will be no return to the halcyon days when dons were given taxpayers' money and left to get on with it. But the current mixture, of market signals and central planning, is not working very well.

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Private Finance Initiative

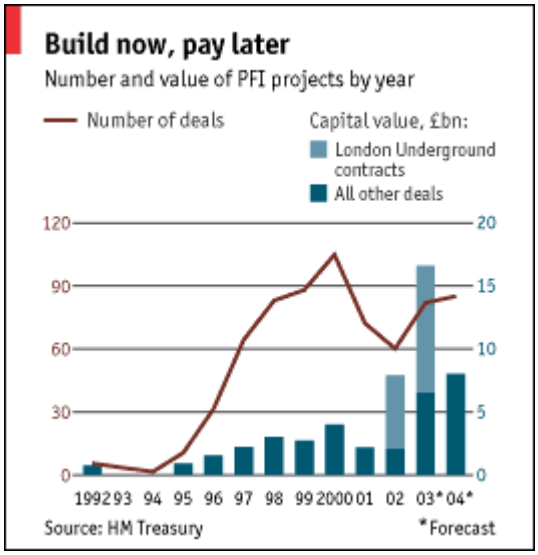
One step back

Jul 24th 2003
From The Economist print edition

The Treasury admits to problems with the PFI

AT LABOUR'S party conference in Blackpool last autumn, there was an exciting bust-up over a boring-sounding issue: the private finance initiative. Ministers fought with trade-union leaders calling for an independent review of this method of funding public investment. Tony Blair and Gordon Brown lost the vote but declared it made no difference: PFI was here to stay. But just before Parliament rose for the summer recess, the Treasury quietly delivered its own review and made some important concessions.

Under PFI, the government no longer finances and builds new public investments like roads and hospitals. Instead it gets the private sector to raise the cash, build the thing and maintain it afterwards. Instead of paying for the investment up front, the public sector repays private firms over a long period, typically 25 years.



Shall we get it privately financed?

The capital value of PFI deals has recently shot up because the contracts to renovate the London underground have finally been signed. This investment will be spread over several years. Since 1997, actual investment through PFI schemes has accounted for about a third of total net investment in the public services.

The unions oppose PFI because they suspect the government is using it as a way of getting the private sector more involved in public services. But since the Labour Party conference the government has imposed more restrictions on how private firms can treat staff working on contracts with the public sector. The Treasury now says that staff in “soft services” like catering and security do not have to be transferred to the private sector in PFI projects. This extends a concession already made in the health service.

But the big question about PFI is whether it really offers value for money. The government argues that the higher costs of private borrowing are outweighed by the transfer of risk, preventing expensive construction overruns and maintenance bills. But critics doubt that much risk is really transferred to the private sector and worry about whether the way PFI bids are compared with conventional procurement methods is fair.

The Treasury finds that most PFI projects have been delivered on time—a welcome improvement on the delays that used to occur with public investment. But it accepts that it needs to reform the way PFI is compared with public-sector alternatives. It also concedes that PFI does not work for information-technology projects because IT changes so fast that it is difficult to specify long-term contracts. And the government will no longer generally use PFI for projects costing less than £20m because they take too long to procure and bidding costs are too high.

But small projects represent only a small share of the value of all PFI deals. The Treasury is standing firm on the big stuff—the infrastructure projects in transport, defence, health and education. The report argues that PFI brings “substantial benefits” in big, complex capital schemes where the private sector can offer project-management skills, innovative design and expertise in risk management. This doesn't satisfy many of its critics, however: they point out that earlier studies have suggested that PFI, while delivering genuine value for money for prisons and roads, has delivered only marginal gains for new hospitals and schools.

The suspicion remains that the Treasury has an ulterior motive in backing PFI for big projects—as a device to get borrowing off the books. If the government had procured this year's PFI investment conventionally, public-sector net borrowing—already forecast in the budget at 2.5% of GDP—would instead be about 3%. Would the Treasury be so enthusiastic about PFI if it did not flatter the public finances?

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At the crossroads

Jul 24th 2003
From The Economist print edition

Since the fall of the Soviet Union, Central Asia has tried to reinvent itself, so far with mixed success. It is in everyone's interest to help this traditionally turbulent region do better, says Caroline Lambert

WHEN on September 11th 2001 the western world was brutally reminded about Afghanistan, it also had its memory jogged about Central Asia. In the 1980s, the Afghan *mujahideen* resisting Soviet occupation had received generous American support. But in 1989, when Russian troops packed their bags and went home, American interest in Afghanistan waned. Once the Central Asian countries had become independent from the former Soviet Union in 1991, America concentrated its attention in the region on Soviet nuclear leftovers, the decommissioning of which it hailed as a great success. When the Taliban took over in 1996, the Americans did not seem overly concerned that the bearded rulers and their al-Qaeda friends were supporting radical Islamic groups in Central Asia.

It was not until the terrorist attacks on New York and Washington that the superpower rediscovered Afghanistan and the wider region. Central Asian countries, worried about their southern neighbour and trying to fight their own brand of terrorism, were eager to help sort out the Afghan mess. Kirgizstan and Uzbekistan gave permission for American military bases on their soil. Kazakhstan and Tajikistan allowed American planes to fly over their territory. Only Turkmenistan maintained a studied neutrality. All Central Asian countries also played a key role in delivering humanitarian aid to Afghanistan. Overnight, a region that had disappeared from western radar screens found itself in the thick of the battle against terrorism.

A couple of years on from September 11th, the region once again seems in danger of being forgotten. The West, expecting its new Central Asian friends quickly to embrace economic and political reform, has been disappointed by slow progress in some areas and by their disregard for human rights and political freedom. Yet although the world's attention has shifted to Iraq and other members of the “axis of evil”, this survey will argue that it would be unwise to let Central Asia slip back into geopolitical oblivion.

Bumpy Silk Road

Central Asia is strategically placed at the crossroads between Europe and China, Russia and Iran. Throughout its history, this has been a both blessing and a curse. Trade between West and East moved through Central Asia along the famed Silk Road, bringing development and prosperity. But the region was also repeatedly invaded by powerful conquerors with imperial ambitions, from the Scythes and Mongols to the Russians.

In Central Asia, the Turkic nomads met up with the Muslim and Persian world. Turkish and Persian cultures and languages blended to form a strong local identity. Even after the Arab conquest, Persian remained the language of local rulers, as Iranian administrators, mullahs and traders settled in the cities of Transoxania (which covered much of today's Uzbekistan, Turkmenistan and Tajikistan), and is the basis of the language spoken by the Tajiks today. The Turks and their language progressively gained influence, however, and Turkish dynasties eventually became the rulers of Transoxania in 999. After many more twists and turns, in the 19th century Russia and Britain vied for influence in the region in what Rudyard Kipling called the “Great Game”. The prize they sought was India.

Although Central Asia shares a common history and culture, there are plenty of differences among its constituent parts. Olivier Roy, a Paris-based specialist on Central Asia, points to the cultural split in the region between the nomads from the steppes and mountains, mainly Kirgizs, Kazakhs and Turkmens, and the sedentary, mainly urban Uzbeks and Tajiks who settled in the river basins of Transoxania. This split was responsible for distinct cultural, religious and political identities that survive to this day.

The cultural split, however, ignores borders. Today's Central Asian states were Soviet creations which, before 1991, had no history as separate, independent countries. After decades of Soviet rule and careful manipulation of language and history, they suddenly found themselves independent but without anything much to hold them together. They were also saddled with large ethnic minorities.

That these countries have managed to remain intact and weather the economic, social and political storm following the collapse of the Soviet Union is therefore no small achievement. Tajikistan, torn by civil war for much of the 1990s, has now settled down, and the wave of Islamic terrorism that hit the region a few years ago seems to have receded for the moment.

Since independence, the individual Central Asian states have made different political and economic choices which have meant that the contrasts between them are now quite striking. Kazakhstan and Kirgizstan have embraced noticeably more ambitious economic and political reforms than the rest of the region. Kazakhstan, with its large Russian minority and more developed economy, feels far more European than its neighbours. In terms of natural resources, mainly oil and gas, Kazakhstan's and Turkmenistan's relative wealth contrasts with Kirgizstan's and Tajikistan's poverty.

Although all the countries seem stable for now, the calm is deceptive. Worrying signs of increased authoritarianism and political repression are everywhere. Regional divisions come at a high political and economic cost. Poverty remains pervasive, fuelling social discontent. And drugs from Afghanistan threaten to damage the region's fragile social fabric and undermine the state. But to the outside world, the question of most immediate concern is probably whether Islamic radicalism is likely to revive.

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Allah's shadow

Jul 24th 2003
From The Economist print edition

Is radical Islam a threat to Central Asia's stability?

AP

Not too much fervour, please

VAZIRA, a young Uzbek woman, expects to spend the next 16 years apart from her husband. He was arrested on his way to a mosque in 2000, accused of being a member of Hizb-ut-Tahrir, an outlawed religious group. To be considered for amnesty, a prisoner has to admit guilt and repent, which her husband will not do. “Why should he ask for their forgiveness when they burn him with cigarettes, beat him up and cover his face with a gas mask so that his screams will not be too loud? They should ask for his forgiveness,” Vazira exclaims angrily. Now that the family's breadwinner has gone, she is only just managing to survive. No one will give her a job, she says, because she wears a veil.

Under Soviet rule, Islam had been seen as a threat to communist ideology and political order, but after independence in 1991 it enjoyed a renaissance in Central Asia. Hundreds of mosques and religious schools appeared, encouraged by Turkish, Pakistani and Saudi money and expertise. The shortage of qualified religious scholars was relieved by an influx of foreigners, and many Central Asians went to Arab countries and Turkey to study Islam. Muslim charities stepped in to alleviate economic hardship and shore up crumbling social services.

After decades of Russian domination, religion has become part of the search for identity, but Central Asian societies remain largely secular. Although many people say they are believers and follow Muslim traditions, few practise their religion regularly. A 1995 survey found that only one in four declared believers in Kirgizstan (and even fewer in Uzbekistan and Kazakhstan) attended the mosque at least once a month. These figures are unlikely to have changed much since. Another survey in 2000 showed only small numbers favouring *sharia* over secular law.

Islam developed deeper historical roots among the populations that settled in the river basins, mainly Tajiks and Uzbeks, than among the nomadic Kirgizs, Turkmens and Kazakhs, whose attitude towards religion was more relaxed. These differences persist to this day. Radical Islam has found fertile ground in Tajikistan and Uzbekistan, as well as in southern Kirgizstan and Kazakhstan, home to substantial Uzbek minorities. Kazakhstan has a sizeable Russian Orthodox minority that dilutes the influence of Islam.

Say a little prayer

The new independent rulers have been keen to embrace folk Islam. This traditional form of the religion, inspired by Sufism, is anathema to fundamentalists seeking to take Islam back to its roots and purge it of external influences. Most Central Asian heads of state have made a point of visiting Mecca and were sworn into office on the Koran. Muslim festivals have become national holidays.

At the same time those leaders, faithful to their Soviet heritage, tend to look at greater Islamic fervour as a potential threat to national security. The religious revival that followed independence was met with increased control from the new states. Uzbekistan's and Turkmenistan's governments, considered the most authoritarian in the region, have kept Islam on a particularly tight leash. In Uzbekistan, imams and other religious figures are carefully vetted by the state, and Friday sermons have to be authorised. Clerics considered too radical or too independent have been pushed into exile or imprisoned. Mosque attendance is monitored by the security services. In Turkmenistan, administrative measures have been employed to shut down religious schools that were considered too independent, and many Islamic centres that had opened since independence have been forced to close. In 2000, the president ordered

the burning of 40,000 copies of the Koran in Turkmen.

The authorities may be over-reacting, but their fears are not without substance. The revival of Islam in the early 1990s did give birth to radical political movements. In Tajikistan, the Islamic Revival Party (IRP), under the leadership of Said Abdullo Nuri, took on the neo-communist government that led the country following independence, and in 1992 the conflict degenerated into civil war. The IRP's leaders and some of its followers fled to Russia and Afghanistan, where they established close contacts with Ahmad Shah Masoud, the commander of the Northern Alliance and an ethnic Tajik.

Secular trends

However, the civil conflict was driven more by regional rivalry than by plans to establish an Islamic state. While in exile, the IRP allied itself with non-religious parties in the United Tajik Opposition (UTO) and chose a nationalist agenda over international *jihad* and the creation of an Islamic state. It was a signatory to a peace agreement in 1997, brokered with Iran's help, that gave the UTO a 30% share in government. This nonetheless reinforced the fears of Tajikistan's neighbours that Taliban-like governments might start springing up all over Central Asia.

Although the power-sharing agreement was never fully implemented, the IRP—still the only legal religious party in the region—has kept its promise to stick to democratic rules. It remains the only sizeable opposition in Tajikistan. Today, the party concentrates on Islam as a source of national identity and culture, compatible with a constitutional and democratic state. Muhiddin Kabiri, the IRP's deputy chairman, represents the modern face of the party. An articulate young lawyer and political scientist, clean-shaven and wearing jeans, he explains that the creation of a theocratic state is not on the party's agenda. He is critical of the increasing concentration of power and of the muzzling of the opposition, but he also stresses that maintaining stability in the country remains the party's priority.

In Uzbekistan, Islamic movements that emerged after independence were quickly suppressed. In 1992 some activists fled to Tajikistan and later set up the Islamic Movement of Uzbekistan (IMU). The IMU established bases in Tajikistan and Afghanistan, receiving support from the UTO and the Taliban, alongside which they fought. A severe clampdown at home caused many followers to leave, and by 2000 there were about 2,000 IMU fighters in Afghanistan.

Unlike the IRP, the IMU chose Islamic internationalism over a purely nationalist agenda. In 1999 and 2000, it launched attacks on Uzbekistan from its foreign bases. The war in Afghanistan in 2001, however, dealt the IMU a near-fatal blow. Its bases in northern Afghanistan were destroyed during a battle around Kunduz, it lost its main sponsor with the demise of the Taliban, and its military commander, Juma Namangani, is believed to be dead. It is thought to have some supporters left scattered around southern Tajikistan and northern Afghanistan, but its days as an effective and well-organised terrorist group seem to be over for now.

There is still life, however, in Hizb-ut-Tahrir (HT), an international movement created in the Middle East in the 1950s, aiming to establish an Islamic caliphate embracing all Muslim countries. Led from Beirut and London, this radical and anti-western movement claims to be non-violent and says it aims to achieve its goals through education. Organised in small cells, it is secretive and seems to concentrate its efforts on distributing leaflets and books. Although outlawed in all Central Asian countries, it is active throughout the region, but particularly in Uzbekistan, northern Tajikistan, southern Kirgizstan and southern Kazakhstan, which host Uzbek minorities. The movement's appeal is now thought to have spread to non-Uzbek ethnic groups as well.

The rise of such Islamic groups has prompted governments all over the region to adopt a tougher stance vis-à-vis extremists and to exercise tighter control over religious activities, but nowhere more so than in Uzbekistan. The attacks there in 1999 and 2000 were followed by waves of arrests all over the country, which now has about 6,500 political and religious prisoners in its jails. Torture is routinely used, and trials almost always end in convictions.

In July 2002, when it emerged that three prisoners in America's detention centre for terrorists at Guantanamo Bay came from the district of Isfara, in northern Tajikistan, the country's president, Imomali Rakhmonov, accused the IRP of flirting with HT. This was promptly denied, but the authorities in northern Tajikistan took his remarks as a signal to crack down on religious institutions. Mosques were closed, religious schools searched and imams dismissed, even though in principle the government has no legal authority to intervene in such matters. The government now appears to be considering a draft law to

formalise the de-facto control it has over religious affairs.

Since the IMU's incursion in 1999, the authorities in Kirgizstan have considered Islamic terrorism a prime security concern. The security forces have lists of suspected HT members, and although mere membership is not an offence, distribution of literature deemed subversive is, and can cost up to five years behind bars—although first offenders usually get away with a fine or a suspended sentence. Sadykjan Makhmudov, a lawyer based in Osh province in the south of the country, who helps people arrested on religious grounds (almost all of whom are Uzbeks), says that evidence is often fabricated, and prison conditions are appalling.

The media and the religious authorities have been enrolled to educate the population about the “true values” of Islam and advocate a moderate approach. According to General Ahmedov Bekzhan, a specialist on religious extremism for the Kirgizstani security services, this has made it more difficult for HT to recruit new members.

Different perceptions of the scale of the terrorist threat, and different responses to it, have created tensions among neighbours. Uzbekistan's security forces have pursued Islamists in Kirgizstan and Tajikistan, and Uzbekistani planes in 1999 bombed areas of both neighbouring countries, killing and injuring civilians. Following the IMU incursions, Uzbekistan planted landmines along segments of its border. Islam Karimov, the country's president, has regularly accused his neighbours of being too lenient with Islamists.

The next Afghanistan?

The threat of terrorism from Islamist extremists is also a powerful argument for Russia, America and China to maintain an interest in the region. The continuing instability in Afghanistan remains an important risk factor for Central Asia. But the spectre of the Talibanisation of the whole region probably never had much substance. Central Asian politics are shaped more by tribal and ethnic allegiances than by ideology, so Islamic movements in the region are likely to remain fragmented. During the civil war in Tajikistan, for example, mullahs from the Kulab region supported the government, whereas former communist apparatchiks from the Gharm region overwhelmingly joined the IRP-dominated UTO. Moreover, there seems to be little genuine popular support for setting up Islamic states in the region.

However, the ground for religious extremism remains fertile. Poverty, lack of political freedom, ignorance about Islam that is exploited by ruthless outsiders, and money from the drug trade make up an explosive cocktail. Most of the region's economies have still not fully recovered from the collapse of the Soviet system. Poverty is widespread in all the countries, especially in rural areas, and the gap between rich and poor is widening. For many local politicians, such economic factors, along with natural disasters and border problems, constitute far bigger headaches than Islamic radicalism.

At the same time, increasingly authoritarian governments leave little outlet for discontent, which plays into the hands of radical Islam. “The IMU”, says a foreign diplomat, “was a child of Karimov's.” In Tajikistan, the IRP remains the only significant opposition, but it has little influence because political power is increasingly concentrated in the president's hands. Mr Kabiri believes that some of its disillusioned members are becoming increasingly receptive to HT's more radical ideas. Many of them now consider the IRP as not Muslim enough, especially given its support for the war in Afghanistan; yet as far as the government is concerned, it remains much too Islamic.

Better religious education and a more open dialogue about Islamic values are also needed if moderate Islam is to overcome radical leanings. Muhammad Sadik, Uzbekistan's former mufti, was allowed to come home in 2001, after eight years in exile, and has been trying to promote his moderate views, which has not endeared him to the HT. He says the rise of extremism stems from ignorance about Islam, fostered by misguided teaching and money from abroad, and the manipulation of religion by people such as Osama bin Laden and Juma Namangani.

Opposition forces in Central Asia, together with human-rights activists, argue that the Islamic threat is being exaggerated to crush all forms of dissent, religious or otherwise. But even those who think that Islamic radicalism and terrorism are real dangers criticise the governments' heavy-handed methods of controlling religion.

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What's the rush?

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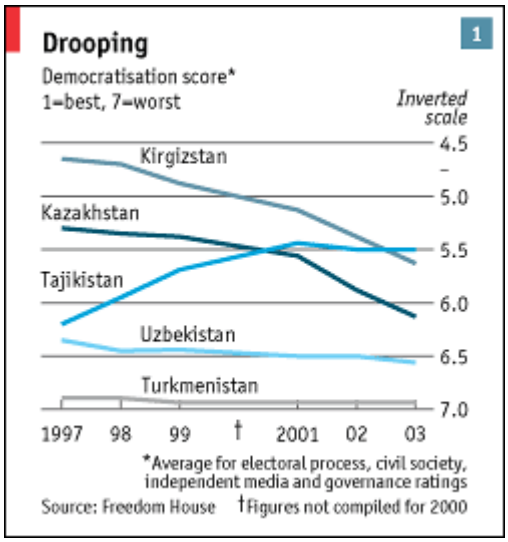
More than a decade after independence, democratic reform has made little progress



"POLITICS in Uzbekistan", says a foreign diplomat, "is like a game of tennis. You cannot change the size of the court, the shape of the ball, the racket, the height of the net or the rules of the game. All you can choose is the colour of your shorts." Mr Karimov, Uzbekistan's president, is a big tennis fan, and if their politics are anything to go by, so are the leaders of the other Central Asian countries.

Yet after independence, the Central Asian countries seemed to be embarking on very different political journeys. Kirgizstan and Kazakhstan appeared to go for liberalisation. Only a few years ago, Kirgizstan was known as "the Switzerland of Central Asia"—a reference not only to its topography but also to its political outlook. Uzbekistan, on the other hand, remained something of a dictatorship, and Turkmenistan turned into a Stalinist caricature; its president renamed the months after famous Turkmens, including himself. Tajikistan, meanwhile, descended into civil war.

A decade later, the differences are striking. Uzbeks still sometimes describe their country as an open prison, but travelling from there to Kirgizstan or Kazakhstan the change of atmosphere is palpable: human-rights activists are more vocal and the media more independent. Political opposition in Kazakhstan is probably the most effective in the region. A foreign diplomat based in Almaty says that if you compare Kazakhstan's human-rights and political record and that of some of its neighbours, Kazakhstan comes out way ahead. Yet according to Freedom House, a group that monitors progress in areas such as electoral process, civil society, governance and freedom of the press, Kazakhstan has been sliding even more rapidly than most of its neighbours in recent years and now holds only a middle rank (see chart 1).

Across the region, leaders have extended their terms of office in a series of referendums, and the role of parliaments has been gradually undermined to give more power to the executive. Saparmurad Niyazov, Turkmenistan's president, does not even pretend to any democratic ambitions. In 1994 he called a referendum to extend his presidential term by a further five years, and in 1999 he got himself elected president for life. In Tajikistan, a referendum last month confirmed constitutional amendments that will allow Mr Rakhmonov to stay in power until 2020. So far, no election in the region has been free and fair by the usual democratic criteria.

Meanwhile, the press has become increasingly muzzled, despite a few cosmetic improvements. Uzbekistan recently lifted official censorship, but there is still no independent or opposition press to speak of. In a very unSwiss fashion, Kirgizstan's main independent newspaper, *Moya Stolitsa*, was weighed down with over 30 lawsuits and a heap of fines. After the editor's car mysteriously caught fire, the paper closed down in June.

In Kazakhstan, Sergei Duvanov, a well-known journalist who wrote on human rights and corruption, a few months ago was charged with statutory rape. He is now in jail. Over the past year, several other journalists have been beaten up. Opposition papers, such as *SolDat* and *Assandi Times*, are being subjected to endless lawsuits. Both in Kazakhstan and Kirgizstan, relatives of the president own large chunks of the media.

Martyrs to the cause

Opposition parties throughout the region are also having a hard time, with their politicians being regularly exiled or imprisoned. In Uzbekistan human-rights activists are still sent to jail, where torture is routine. The Turkmenistani opposition movements that emerged after independence were quickly crushed, and now opposition leaders operate from abroad. But even in more liberal Kirgizstan, the main opposition leader, Felix Kulov, is in prison, and the two main leaders of the Democratic Choice of Kazakhstan (DCK), an opposition umbrella group, were jailed last year. One of them was released in May after promising to give up politics. In Tajikistan, one of the leaders of the Islamic Revival Party was arrested in May.

Reuters

Protests get you to jail

And there are plenty of other ways of harassing the opposition. Emil Aliev, a senior member of Felix Kulov's Ar-Namys party, explains that last January the party had to vacate its offices for the third time because the landlord had come under pressure to terminate the lease. The party has not been able to find any new space, and officials now meet in cafés and rely on their address books and mobile phones. Despite many requests, the party has never been granted permission for a public gathering. Relatives of party members also suffer. Mr Aliev's brothers have lost their jobs, and his wife was fired from the state university. Last year, authorities in Kazakhstan made it harder for parties to register. Of the previous total of 19, only seven qualified. The government said it wanted to filter out parties without a real base, but in practice it seems to be increasing its control.

The opposition parties bear some of the blame for their own weakness. They are often much better at protesting against human-rights abuses and the lack of democratic reform than at putting forward credible alternatives. Their policies tend to be vague. Most of them are rich in principles but have no money. Besides, members of parliament are often elected for their personality or their regional or tribal affiliation rather than for their ideas, a problem reinforced by a system under which only a limited number of seats in parliament is reserved for political parties.

All this means that most conventional opposition parties are flimsy structures with little grassroots support. The main exception is the IRP in Tajikistan which, thanks to its Islamic credentials and its role in the civil war, has access to a network of mosques—and to its supporters' wallets. But even the IRP's popular base is dwindling as people are losing faith that political parties can achieve change. Instead, some are turning to Islamic radicalism.

However, over the past few years a new kind of opposition has been emerging from within the ruling cliques. Nurbulat Masanov, a political scientist who is also member of the DCK's political council, describes it as an opposition of interest, rather than the more traditional opposition of principle. In Kazakhstan, for example, Akezhan Kazhegeldin, who was prime minister in 1994-97, set up the Republican People's Party of Kazakhstan in 1998, and in 1999 was forced into exile, from where he continues to head his party. The DCK was established by a reformist faction within the government in November 2001, triggering a cabinet crisis. The new movement was headed by Galymzhan Zhakiyanov, a former provincial governor, and Mukhtar Ablyazov, a former energy and trade minister, before they were both sent to jail last year. In Kirgizstan, Mr Kulov, now one of the main opposition figures, used to head the state security service and was at one time mayor of Bishkek before being put behind bars in 2000; and in Turkmenistan, Boris Shikhmuradov, a former ambassador to China and once considered a staunch supporter of Mr Niyazov, defected in 2001 and set up his own opposition group in Moscow. Unwisely, he returned last year and was jailed for life.

These people are more dangerous to those in power than the fairly innocuous opposition of principle. Having been in power themselves, they are much more politically savvy. In Kazakhstan they also have money, which buys some media influence, staff, campaign resources and lobbying in Washington and Brussels. Some of them, including Mr Kazhegeldin and Mr Ablyazov, were successful businessmen before going into politics.

But having had a taste of power brings disadvantages as well. In countries where money and power seldom rhyme with honesty and moral rectitude, the authorities usually manage to find enough skeletons in past incumbents' cupboards to take them to court. A docile and corrupt judicial system tends to ensure the desired outcome. In 2001, Mr Kazhegeldin was sentenced in absentia to ten years in jail for corruption and abuse of power, and Mr Ablyazov and Mr Zhakiyanov were both accused of similar crimes. Mr Kulov was imprisoned on charges of embezzlement during his time as head of the state security service.

Their origins in the ruling elite must also cast some doubt on the new opposition leaders' commitment to the democratic ethos. Their departure from office often had more to do with power struggles or business interests than with their democratic conscience or distaste for corruption.

An alliance between the two kinds of opposition might solve the problems of both groups, by joining human-rights and democratic credentials with money and political skills. But the region's oppositions remain divided. Indeed, in Kazakhstan a group splintered off from the DCK before the movement had even celebrated its first birthday. The main Turkmenistani opposition groups in exile remain divided.

Reuters

Rakhmonov will stay on, and on

So why are countries in the region stalling, some would say even backtracking, on democratic reform? Some of the setbacks may be more apparent than real. Over the past few years, westerners have become more involved in and better informed about the region, and now realise that they started from over-optimistic assumptions. All the presidents in the region were moulded by the Soviet system, and it would be naive to think that the collapse of the Soviet Union turned these apparatchiks into instant democrats. After independence, some of them adopted more liberal political strategies than others, but their basic philosophy has remained the same: anything or anybody challenging the government is a threat to the regime, and therefore to the country's stability. The civil war in Tajikistan only served to reinforce that view.

Foreign observers seem to believe that the deterioration was due to September 11th, which among many other things made the West more indulgent of illiberal regional habits. This was undoubtedly an aggravating factor, but local journalists and human-rights activists think that the reversal started in the mid-1990s. During the first years of independence, the region's leaders, accustomed to receiving directions from Moscow, were suddenly left on their own with a whole host of new problems, from economic collapse and social protests to a burgeoning opposition and an independent press. They took a few years to learn how to control this new situation. The rise of radical Islam in the late 1990s set off another wave of repression, particularly in Uzbekistan. More recently, the emergence of a stronger opposition from within the system in Kazakhstan and Kirgizstan, together with emerging corruption scandals, seems to have made the regimes even more authoritarian.

What next?

No matter how much power the current leaders have managed to accumulate, eventually they will have to go. Uzbekistan's Mr Karimov is rumoured to have leukaemia. Turkmenistan's Mr Niyazov has a weak heart. Unless they hang on till grim death, it seems probable that the leaders will try to hand-pick their successors, not only to secure their political legacy but also to safeguard their own future. Over the years, political power has become increasingly intertwined with business interests, if not outright corruption. That means the current leaders and their entourages could face legal problems once they step down, which they fear could tarnish their record as first presidents of the newly independent countries.

Reuters

As things stand, media freedom even in the region's more liberal countries clearly does not extend to corruption in high places. In Kirgizstan, *Moya Stolitsa*'s closure appears to be linked to the newspaper's keen interest in the business dealings of the president's son-in-law. In Kazakhstan, Mr Duvanov, the investigative journalist, is believed to have paid the price for writing more articles about corruption than the authorities were prepared to stomach. And media that want to stay in business do not mention an investigation dubbed “Kazakhgate”, currently in progress in America to look into payments allegedly made when oil contracts were allocated to foreign oil companies. Media that have flouted this rule are facing a raft of lawsuits and tax inspections.

However, the transition to the next generation of leaders could upset the current balance among the ruling elites, thus opening the way for change. Political power in Central Asia rests on regional, clan or tribal solidarity groups, and sometimes business interests. These divisions run deeper

than ideological ones. In Kirgizstan, rulers have traditionally come from the north, which has caused growing resentment in the south. Kazakhstan is divided into three hordes (clans with distinct geographical bases), and in Turkmenistan tribalism is strong. In Uzbekistan, the ruling elite is made up of a variety of conflicting clans and interest groups, but Mr Karimov has skilfully managed to keep them all within the system, and no one from this heterogeneous group has crossed over to the opposition.

Niyazov goes for gold

The consequences of unchecked regional rivalry have been painfully apparent in Tajikistan, where the civil war was fought mainly on regional rather than ideological grounds. The country was long ruled by the northern Khodjentis, in alliance with the southern Kulabis. In the civil war, the Kulabis fought against the central Gharm and the eastern Pamir regions. The post-war settlement amounted to a power-sharing agreement between people from Kulab—the president's home region—and the Gharmis, leaving the northern region out of the loop. This has caused resentment in the north, which despite its traditionally secular outlook has become an opposition stronghold.

Transition to a new set of leaders could therefore cause the ruling elite to fragment as new factions gain the upper hand. If the opposition becomes stronger, another possible scenario is the choice of a compromise successor acceptable to both the outgoing president and the opposition, in an arrangement sweetened with some form of amnesty. Such a transition period might then lead to genuine elections further down the line. The most likely outcome, however, is a “Putin scenario”, in which presidents will groom compliant successors so they can retreat into happy retirement, leaving the political system largely unchanged.

How long will the transition to a genuine democratic system take? Probably longer than seems reasonable. As a foreign diplomat put it, “The calendar we have in mind for a transition is having to be adjusted. This will take at least 10-15 years.”

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Hanging separately

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The heavy costs of non-co-operation

IN KARA SU, a Kirgizstani market town on the border with Uzbekistan, the small bridge that used to connect both countries stops in mid-air half-way across. Last January, Uzbekistan's authorities decided to close the border and simply dismantled their side of the bridge. The idea was to stem the spread of imaginary diseases from Kirgizstan while keeping subsidised petrol and fertilisers inside Uzbekistan. Another reason was to keep out cheap Chinese imports, from flip-flops to cooking pots, the sorts of things that are freely available in the Kara Su bazaar.

However, the severing of the bridge has not stopped cross-border trade. A market trader, who reckons he has lost 40% of his business since the border was closed, says his customers from Uzbekistan are back, crossing illegally by boat or on makeshift bridges. The big pile of Uzbek currency notes he holds in his hands confirms his story. A group of women carrying heavy bundles carefully step across the wooden planks that the Uzbekistani border guards have laid over the missing portion of the bridge. Once the women are on the other side, the planks disappear. The petrol containers from Uzbekistan that line the roads of southern Kirgizstan leave little doubt that smuggling continues.

The days when borders existed only on paper are long gone. Without a Soviet referee to adjudicate, tensions among Central Asian countries have come out into the open. Uzbekistan has landmined stretches of its borders with Kirgizstan and Tajikistan to try to stop Islamists and drugs, and occasionally closes all its borders. Trade barriers have been raised all over the region. One of the most contentious regional issues is water, and how to share it. Djoomart Otorbaev, Kirgizstan's deputy prime minister, says that after Islamic fundamentalism, tensions over water and energy constitute the biggest threat to stability in the region.

Bordering insanity

The human, political and economic costs of these regional divisions are high. The people of Razjezd, a village in Batken province in southern Kirgizstan, are only too aware of it. The next village, a few hundred metres away, is in Uzbekistan, and the border runs across the fields in-between. The two communities are close: the Uzbek neighbours come to pray in Razjezd's mosque and send their children to its school, the closest for them. When Razjezd secured a steady supply of clean drinking water with help from a UN programme, it extended the pipe to the Uzbek village, which in exchange stretched its gas-supply pipe the other way.

But now Razjezd villagers are wary about walking across the fields to the other side because they get fined by Uzbekistani border guards. Unfortunately, cows and sheep, oblivious to borders, regularly wander over to the other side, to the dismay of the villagers. “If your cow crosses over, it becomes an Uzbek cow, unless you can pay the 30,000 sum ($30) fine or bribe your way out of it,” explains one villager. Another resident now has trouble visiting his father and brother, whose house is only 300 metres from his, but on the other side of the border. He could use an official border post a few kilometres away, but the border formalities can takes hours, and he may not be allowed to cross at all. Soon he may have no choice: a fence is being built across the open fields to mark the border.

Such barriers, besides complicating the daily life of villagers, also carry a high economic cost. Naken Kasiev, the governor of Osh province in southern Kirgizstan, estimates that legal exports from the area have plunged by 50% since Uzbekistan started imposing trade restrictions last year. He lists border tensions among the top problems for his province. The population has suffered badly, he adds, although the borders have failed to put an end to trade: smuggling—and the associated petty corruption—is flourishing.

AP

Awkward neighbours

The economic costs affect not only the border areas, but the whole region's economy and development. Trade barriers and border closures have been particularly onerous for Tajikistan and Kirgizstan, whose exports have to travel through Uzbekistan and Kazakhstan to reach Russia and Europe. Corruption and extortion at border posts and along the roads add to the problem.

The new emphasis on borders also breaks up a market of 57m customers, making it less attractive to foreign investors—except in the oil, gas or gold business. Tajikistan and Kirgizstan, which are small, poor, remote, mountainous and landlocked, are struggling to convince western businesspeople that they are worth investing in. They might find it easier if they could offer access to, say, the 25m people living in Uzbekistan. That was the idea behind setting up a bottled-water plant in northern Tajikistan, designed to serve the neighbouring market as well. But border closures and trade barriers have left it high and dry.

A wicked waste of water

Squabbles over water and power also carry a high economic price. There would be no shortage of water in Central Asia if it were properly managed. The Amu Darya and the Syr Darya, the region's two main rivers, spring from the Pamir and Tian Shan mountains, cross several countries along their course, each well over 2,000km (1,250 miles) long, and eventually flow into the Aral Sea, a huge lake. Water is essential for this arid region, not only for people but above all for agriculture: irrigation gulps up over 90% of the available water. The irrigation networks are old and inefficient, however, so half the water never reaches the fields. Farmers, used to getting their water free, over-water their crops, which brings salt to the surface. To aggravate matters, the dominant crop is cotton, which is particularly thirsty.

So as rivers travel down the region and water gets diverted for irrigation, their flow gradually turns into a trickle. By the time they reach the Aral Sea, which straddles Uzbekistan and Kazakhstan, there is no water left. The surface area of the Aral has shrunk to less than half its size in 1960, the volume of water has dropped by three-quarters, and salinity is four times what it used to be. This has created ecological as well as economic devastation in the surrounding area.

Things are likely to get worse. Every Central Asian country except Kazakhstan is planning a big expansion in irrigated areas to feed growing populations, and will therefore need more water. And Afghanistan, which has recently been too busy with the war and its aftermath to claim the 8% of the Amu Darya waters to which it is entitled, will start doing so once its agriculture gets going again.

After independence, the countries in the region set up an Interstate Commission on Water Co-ordination (ICWC) for the joint management of water resources. In a byzantine system much like that used in Soviet times, members meet every year to agree on the way water resources are to be shared in the year ahead. The currency used is electricity and the mode of exchange barter. Every year, the downstream countries agree with the upstream ones, mainly on a bilateral basis, on the amount of hydro power they will buy from them during the summer months, when water is released. In the winter, power travels the other way—in the form of gas, coal or electricity—and prices are set to make the barter transaction balance.

Reuters

At the bottom of the Aral Sea

Sadly, no one is happy with the arrangements. Some 80% of the water that flows into the Aral Sea basin comes from Tajikistan and Kirgizstan, yet these countries are allowed to withdraw less than 15% of the water and have to restrict their generation of hydro power in the winter so they can store water for the summer. They also complain that they get no financial help from downstream countries to operate and maintain dams and reservoirs that benefit the whole region. Downstream countries, on the other hand, think they are being overcharged for hydro power that they could do without.

Not surprisingly, agreements and water quotas are often flouted. Over the past few years, Kirgizstan has repeatedly released more water from its Toktogul reservoir than was agreed to generate electricity, flooding Uzbekistan and Kazakhstan in winter and risking a shortage of water for irrigation in the summer. Uzbekistan has cut off electricity and gas supplies to its upstream neighbours several times.

Unable to make an integrated power market work, all the countries in the region now aim to generate enough power and retain enough water for their own needs, which makes no economic sense. Uzbekistan and Kazakhstan are thinking of building reservoirs to store water released by Kirgizstan in the winter to prevent flooding. The government in Tajikistan would dearly love to build two new dams, connect the grids in the north and south of the country (which are separated by mountains) and even export power south of the border. Kirgizstan also has dreams about hydro power, giving the downstream countries nightmares. But neither country is likely to be able to find the money.

Built-in rivalry

With so much to be gained by working together, why are Central Asian countries so divided? The Soviet legacy has a lot to do with it. The borders of today's Central Asian republics were drawn in the 1920s, with political and strategic considerations in mind. According to Mr Roy, the Central Asian specialist in Paris, the Soviet regime was anxious to destroy the pan-Islamic and pan-Turkish ideology promoted by Central Asian intellectuals in the early 20th century so it could introduce bolshevism more easily. It therefore cut up a multi-ethnic empire into separate pieces to bring together supposedly “national” groups defined mainly by language.

Before Soviet rule, identity and solidarity in Central Asia were largely based on tribe, clan, geography and even profession rather than on ethnic groups, which did not readily fit with geographical or linguistic divisions. As a result, all the new republics were saddled with large minorities. The creation of enclaves further complicated the picture. For example, Sokh, an enclave administered by Uzbekistan, is in Kirgizstan but its people are Tajiks. When the republics became independent in 1991, with little warning, the new countries felt they had to exaggerate their differences to justify their continued existence.

Regional tensions have been further exacerbated by the different ways the various Central Asian countries have dealt with the post-Soviet transition. Kirgizstan and Kazakhstan have embraced more radical market reforms than Uzbekistan and Turkmenistan, and Tajikistan is still trying to pick up the pieces after its disastrous civil war. Kirgizstan has been a member of the World Trade Organisation since 1998, but, says Mr Otorbaev, the deputy prime minister, membership has not brought real economic benefits because most of the neighbours are still outside. Kirgizstan is now trying to market itself as a gateway to China, but its Central Asian neighbours see it as a Trojan horse for Chinese exports.

There are also big differences in the way the Central Asian countries perceive the outside world. Uzbekistan seems to see nothing but threats which it has to face on its own: Afghan terrorism and drugs, Russian attempts to regain some of its lost influence in the region, and low-quality imports that hurt its domestic industry. It criticises its neighbours for not doing enough to deal with radical Islam, and resorts to border closures and the use of landmines. By contrast, a small and poor country such as Kirgizstan has to see the outside world as an opportunity rather than a threat because it is unable to retreat inside its borders.

All Central Asian countries except Turkmenistan (which has declared itself neutral) have embraced the United States as an important ally, but most still consider Russia as a strategic partner as well, except Uzbekistan, which has adopted a much more cautious stance towards its former master. The rivalry between Uzbekistan (the most populous) and Kazakhstan (the largest) adds another layer of complication, as does the contempt in which the region's presidents are said to hold each other.

Regional co-operation in Central Asia has been, in the words of a foreign diplomat, “an abject failure”. Until there is sufficient political will in the countries concerned to work together, outsiders will not be able to persuade them to do so. For example, a great deal of foreign money and effort has been poured into sorting out the region's water supplies over the past decade without much to show for it.

There are, however, a few hopeful signs. Kazakhstan has recently agreed to start paying Kirgizstan for the maintenance of dams and reservoirs on the Chuy river. This may set a precedent for similar agreements on the Amu Darya and the Syr Darya, although Uzbekistan remains opposed to anything of the sort. At the local level, water-user associations responsible for the management and maintenance of irrigation canals have been set up with foreign help. These associations also collect fees from farmers for this service, a first for the region. Similar structures have been set up for drinking water. All this is helpful, but much more work will be needed to weave such initiatives into a coherent whole. And ultimately it is Uzbekistan that holds the key to regional co-operation, whether over water, trade or borders.

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Cottoning on

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But Central Asia's economies still have a long way to go

EVERY year, hundreds of thousands of migrant workers from Kirgizstan and Tajikistan make their way to richer Kazakhstan and Russia to find jobs in construction or farming. In Khoji-Bogh, a mountain village in northern Tajikistan, eight out of ten villagers make the trip every spring. The $1,000 they can earn during the season is more than they could ever hope to make at home. Besides covering basic necessities, it sometimes pays for a son's wedding or a new roof. But for all their hard work, some migrants come back empty-handed. Most travel by road or train, carrying their money in cash, and robberies are common. Fortunately, electronic money transfer is becoming more widely available, and the government has abolished a tax on money transfers.

After the collapse of the Soviet Union the whole region got much poorer, but Kirgizstan and Tajikistan are much the worst off. According to a UNDP study, the proportion of poor people in Kirgizstan jumped from a third on the eve of independence to over 55% in 1999 before dropping to just under half in 2001. In Tajikistan, the poorest of the countries that used to make up the Soviet Union, more than 80% of the population fall below the official poverty line, and 17% live on less than $1 a day. According to the World Bank, the average wage covers only one-third of the minimum needed to survive. One child in three is chronically malnourished.

Even in Kazakhstan, the richest country in the region, nearly one person in four lives below the poverty line—though that is an improvement on 1996, when the figure was one in three. And such averages hide huge disparities not only between urban and rural areas, but also among regions. In Mangystau province, which borders the Caspian sea, over 95% of the rural population live in poverty, whereas in Astana, the capital, only 2% of the residents lack basic necessities.

The shock of independence

In economic terms, the collapse of the Soviet Union was a disaster for the region. Central Asia's industry, geared towards supplying other parts of the Soviet Union, had been shielded from international competition, and poor Tajikistan and Kirgizstan had been heavily subsidised from Moscow, to the tune of $1 billion a year. After independence, GDP throughout the region plummeted and has yet to recover to its pre-independence level, except in Uzbekistan and Turkmenistan (see chart 3). At the same time the quality of state-provided social services, one of the few bright spots of the Soviet system, deteriorated dramatically.

One of the reasons for the region's uneven economic fortunes is the skewed distribution of natural resources across it. Whereas Kazakhstan and Turkmenistan have significant oil and gas reserves, Tajikistan and Kirgizstan are small, mountainous countries with little more than a sprinkling of gold and lots of water. Uzbekistan has enough gas for its own consumption, as well as reasonable mineral wealth.

The way the individual governments tackled the economic transition has also made a difference to their people's material well-being. Kazakhstan and Kirgizstan embraced more ambitious market reforms and faster liberalisation than the rest. Kirgizstan was the first country in the region to introduce a new currency in 1993 and to become a member of the WTO in 1998. Uzbekistan adopted what it called a more gradual approach to avoid social upheaval, but in practice this has meant very timid reforms or even backtracking on earlier advances. Turkmenistan's gas wealth has allowed it to avoid reform of any kind, and Tajikistan is still recovering from a civil war that added another layer of hardship, killing up to 100,000 people, making 700,000 homeless and wrecking its infrastructure.

A mountain to climb 2

Country	Life expectancy, years, 2001-05	Infant mortality rate per 1,000 births, 2000-05	Motor vehicles per 1,000 population, 2000	Telephones per 1,000 pop., 2001		Televisions per 1,000 pop., 2000
				Main line	Mobile	
Kazakhstan	63.0	52	86	113*	36	241
Kirgizstan	64.1	37	39	78	5	49
Tajikistan	63.3	50	–	36	0	326
Turkmenistan	62.5	49	–	80	2*	196
Uzbekistan	65.5	37	–	66	3	276
Russia	*65.2*	*16*	*153*	*243*	*38*	*421*

Sources: World Health Organisation; United Nations; World Bank; International Telecommunication Union *2000

By now, all the countries in the region are achieving respectable levels of economic growth and keeping inflation under control. But there is a huge gap in performance between the oil- and gas-producing countries—whose GDP has been growing at a lusty 10% or more over the past few years—and their resource-poor neighbours. Kazakhstan's new wealth is on display in Almaty, its largest city, with its Cartier and Armani shops and its elegant business crowd. The new capital, Astana, is a Legoland of glass and steel buildings erected in the middle of the empty northern steppes. In Turkmenistan, gas wealth has gone into marble palaces for the president, leaving the rest of the population little better off. Tajikistan and Kirgizstan, saddled with foreign debt and dependent on foreign aid, have no money for anything.

But whether poor or not so poor, most countries in the region have lopsided economies that rely heavily on one sector. In Kazakhstan, oil and gas made up over a quarter of GDP as well as of government revenues in 2001, and over half of all foreign investment has been in the energy sector. Oil production has more than doubled since 1996 and will keep on rising as new oil fields come on stream. To guard against the risk that oil revenues will push up the exchange rate, thus crippling other parts of the economy, the government has created a national fund which now contains over $2 billion of oil money. Kirgizstan's much smaller economy is heavily dependent on gold from the Kumtor mine, which makes up about 40% of the country's industrial production. In Tajikistan, 70% of export revenues depend on the enormous Tadaz aluminium smelter and on cotton production. Cotton also makes up 27% of exports from Uzbekistan.

To help diversify the economy and create badly needed jobs, governments throughout the region are keen to promote small and medium-sized businesses, which in the past have faced numerous bureaucratic hurdles. The sorry state of the banking sector and lack of access to money have also caused problems, except in Kazakhstan, which is considered to have the best financial sector in the former Soviet Union. Small and medium-sized companies (SMEs) in Uzbekistan surveyed by the International Finance Corporation, part of the World Bank group, reported that they had to endure an average of 6.5 inspections in a single year, each lasting an average of two days. Some suffered as many as 40. Taxation was also felt to be too heavy, as well as too complicated. On average, SMEs pay 23% of their gross revenues in taxes, and many admit to cheating.

AP

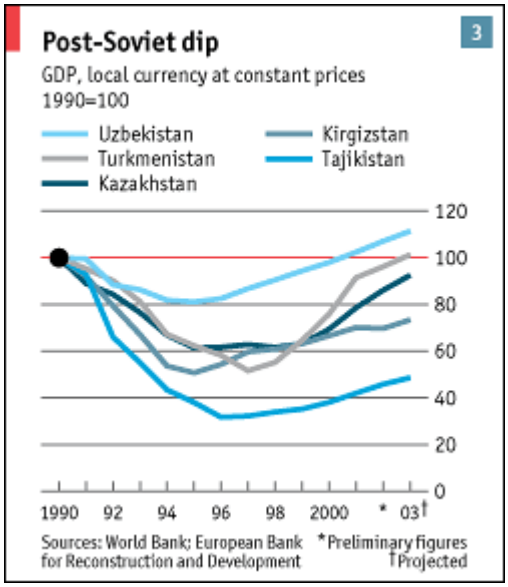
Still waiting for a better life

Even in Kazakhstan, which together with Kirgizstan has made the most progress on reform, life for SMEs remains difficult, and managers spend an inordinate proportion of their time dealing with government regulations and bureaucratic requirements. According to the Pragma Corporation, a consulting firm financed by USAID, their main problem has been the endless succession of inspections. Often these turn into an organised shake-down.

The Kazakhstani government has declared a temporary moratorium on non-essential inspections, and has been getting tough with greedy inspectors, which resulted in a reported drop of 40% in the number of inspections in the first quarter after the moratorium started in January. And as in Kirgizstan, business associations are pushing for reform. Uzbekistan has introduced an inspection registration book and set up a department for the protection of entrepreneurs' rights. Many SMEs, however, do not even know that the rules have changed, which suggests that a lot more needs to be done to keep them informed.

In Uzbekistan, the chosen method of supporting SMEs has also

been protection and control, mainly in the form of promoting import substitution in the hope of boosting local industries. Over the past year, small cross-border traders have been slowly shut out by higher tariffs and new bureaucratic requirements, presented as measures to reduce smuggling and stop poor-quality imports from China. Many small-scale importers and exporters have gone underground and others have been squeezed out of business. In markets around the country, prices have gone up, and fewer goods and less choice are causing growing discontent.



Uzbekistan still operates a dual exchange-rate system, despite repeated promises to abolish it. Although the authorities have recently eased up a little, many businesses still find it difficult to obtain foreign currencies by the official route, so the black market has been thriving. Besides, the official rate is set too high, discouraging exports. Of the 1,500 SMEs surveyed by the IFC, only 1% were engaged in foreign trade. The government's grip on foreign exchange allows it to boost sectors that it considers important and keep a lid on imports at the same time. The gap between the official and kerb rates has also been a bounty for those who are able to buy foreign currency at the official rate. But in the past few months it has narrowed to next to nothing as the clampdown on imports has gripped.

It's a jungle

Foreign investors too have had a hard time in Uzbekistan. Lured by the size of the market—25m, over 40% of the population of Central Asia—and a promising economic outlook, in the mid-1990s a number of foreign companies were keen to get a foothold in the country. Some managed to negotiate special currency arrangements, but others are sitting on piles of local currency which they cannot convert or repatriate. Making sense of the maze of conflicting regulations and dealing with the bureaucracy is also a challenge. “When you walk into the jungle,” says a frustrated foreign businessman, “you create a path that others can follow. In Uzbekistan, there is never any path.” He is packing his bags and going home. “You know that the real market economy has come when McDonald's moves in,” says another foreign entrepreneur. “Do you see one anywhere around here?” A foreign diplomat is equally critical. “Heaven and hell are in Uzbekistan,” he says. “If you read the local newspapers, it feels like heaven, but if you try to set up a joint venture, you're in hell.”

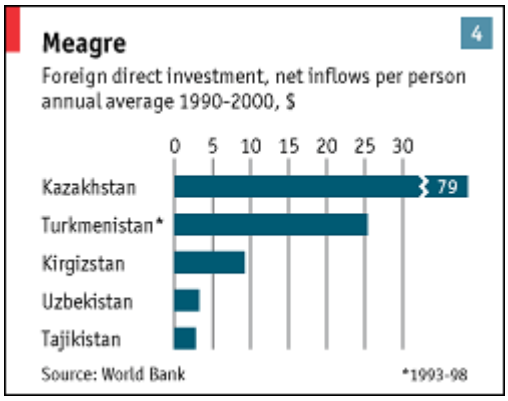
But another businessman takes a more positive view. “It is hard and often discouraging to work here, but although backtracking from authorities is part of daily business life, things are slowly changing. And once the straitjacket gets a bit looser, there will be so many opportunities. One just needs a long-term view and a good dose of optimism and persistence.”

Official changes of tack are not helping. After a promising start on privatisation, the government seemed to row back by giving a veto to the state's minority holdings and issuing new shares to the state to dilute private holdings. Last year, it decided to renationalise small privatised companies that had changed the nature of their business. In January, however, it abolished the veto power and announced it was ready to sell its remaining 25% holding in most privatised companies, except in strategic sectors—though no one seems sure what “strategic” means.

Competition within the elite—between powerful clans, or between reformers and supporters of the status quo—also helps to explain the inconsistencies of economic policy. Perhaps most important, there is a lack of understanding of how a market economy works. “Karimov thinks he is an economist,” explains a foreign diplomat, “and by Soviet standards he is. But what he practices is voodoo, not economics.”

A weak legal system and corruption, pervasive at all levels throughout the region, further discourage foreign investment. Transparency International, a corruption watchdog, gives Kazakhstan and Uzbekistan a poor score in its perceived-corruption rankings (Central Asia's other three have not been rated). Kazakhstan's oil wealth has been particularly tempting. In the “Kazakhgate” scandal, hefty payments are said to have been made into Swiss bank accounts for the benefit of top Kazakhstani politicians. NGOs have been campaigning for oil companies to declare such payments to governments. Evgeny Zhovtis, a human-rights activist in Kazakhstan, is not surprised. “If you create a family with the market economy as the mother and communist management style as the father, the only child will be a criminal and corrupt

state," he declares.



In a region where most of the population lives in the countryside, efforts to root out poverty have to involve agriculture, so the sector is politically more important than its economic weight would suggest. Land reform has moved at different speeds in different parts of the region, and has resulted in an increase in food crops. But cotton remains the most important crop in the region, particularly in Uzbekistan, the world's largest exporter after America.

Farmers are under pressure to continue planting this cash crop, and the government keeps a tight grip on marketing. The state provides farmers with seeds, tractors and fertilisers. It then buys the cotton from them at less than half the market price, processes it in state-owned mills and sells it at full price in the international market. The mark-up feeds state coffers and lines the pockets of officials, so reform is difficult. In the Fergana Valley, both on the Uzbek and Tajik side, in practice not much has changed since Soviet times: there is still a quantitative target for the amount of cotton to be produced, and students and local civil servants are still sent into the cotton fields every autumn to pick the crop. An Uzbek law professor, who dodged his picking duties last season, explains the absurdity of the process. "The picking dates are decided by the administration," he says, "so even when there is no more cotton to be picked, we are still sent to the fields until the season is officially over."

This year, however, a new system was introduced in Uzbekistan that will allow cotton farmers to sell half their production without going through the official system. Under a World Bank project, a few foreign traders are also allowed to buy and sell direct. Dagris, a French company, has set up a joint venture with some local authorities in which it holds the majority. Unlike the government, it pays cash, which has given the cotton farmers much more flexibility. Last year one of the farms bought a van, something previously unheard of in the area, and cotton growers are now lining up to work with the joint venture.

Whichever way it is done, reducing poverty is seen as vital to stability in the region, and international finance institutions, from the World Bank to the European Bank for Reconstruction and Development, have been pushing for faster economic reform. They have been disappointed several times by false starts in Uzbekistan, and, apart from the Asian Development Bank, have mostly given up on Turkmenistan. Governments, however, point out that it took western countries a lot longer than a decade to build their own market economies, and that they did not have to manage the transition from the Soviet system. Djoomart Otorbaev, Kirgizstan's deputy prime minister, says the first leader to understand the difficulties of transition was Moses, who spent 40 years in the desert and faced strong resistance from his own people. "But we don't have 40 years," he adds with a smile.

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The Afghan plague

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The rising tide of heroin feeds social ills and undermines the state

IN OSH, in southern Kirgizstan, it takes all of $1, and 20 minutes, to get a fix of heroin. According to Podruga, a local NGO that tries to help sex-workers protect themselves against HIV/AIDS, there is a well-organised network of dealers in town, sometimes involving both parents and children of the same family, or women with no other means of income. Podruga volunteers distribute condoms and exchange dirty needles for clean ones, but little help is available for those who want to come off drugs. Treatment remains beyond the means of most people, and users are often treated as criminals. Osh province alone has an estimated 15,000 drug users, and numbers have been growing fast. Prostitution is also on the rise. Podruga's youngest protégée is only 11 years old.

The number of drug users in Central Asia as a whole is thought to be close to 400,000, having increased sixfold in the 1990s, one of the highest growth rates in the world, according to the UN. Almost 1% of the population over 15 use opiates, three times more than in western Europe. Most addicts are hooked on heroin and use needles. HIV/AIDS, which remains largely unmeasured, is believed to be spreading uncontrollably. Addiction has also been feeding petty crime and prostitution across the region.

From Afghanistan, with love

Central Asia has become a main transit route for opium and heroin from Afghanistan to the streets of Europe. The UN reckons that about a quarter of all heroin coming out of Afghanistan passes through the region. Traditionally, Afghan opium was trafficked through Pakistan and Iran. Both countries remain important export routes, but a northern alternative via Central Asia developed rapidly in the early 1990s, partly because of Pakistan's and Iran's efforts to crack down on the traffic and partly because Russian border guards were withdrawn from most of the region when the Soviet Union collapsed. The civil war in Tajikistan in 1992-97 was also good for the drugs trade.

The Taliban had clamped down on poppy growing with an iron fist, and banned it completely in 2000. Production collapsed from its peak of over 4,500 tonnes in 1999 to 185 tonnes in 2001. However, the ban did not cover trade, and opiates kept on flowing into Central Asia. After the demise of the Taliban, poppies reappeared with a vengeance, in spite of a fresh ban issued by Hamid Karzai's government. According to UN estimates, production increased to 3,400 tonnes in 2002. Afghanistan once again dominates world production of opium, with almost three-quarters of the total.

For many Afghans living in rural areas, producing opium is the only way to survive. Before the 2000 ban,

prices had slumped to $35 a kilo, or $1,100 a hectare, an income close to that for legal crops; but since then prices have risen again, making poppies correspondingly more attractive. At the end of 2002, farmers could get $540 a kilo, or over $16,000 a hectare, which no other crop could rival. Last year, opium production in Afghanistan generated up to $1.2 billion, or almost 20% of GDP.

Neighbours also profited from the windfall: criminal groups from Central Asia, says the UN, made profits of $2.2 billion from the trafficking of opiates in 2002, equivalent to 7% of the region's GDP. Tajikistan is by far the worst affected by the drug plague, thanks to a combination of history, poverty and geography. During the civil war, drugs were a valuable source of cash for buying weapons. Although the conflict officially ended in 1997, warlords and officials continued to draw on this source of income. In the late 1990s, the drugs trade was believed to be a source of finance for the Islamic Movement of Uzbekistan, a terrorist group which had bases in Afghanistan and Tajikistan. After the war in Afghanistan, the IMU lost most of its influence, but the drugs trade continues, with organised criminals taking the place of political or religious activists.

Trafficking can be very tempting for people who are poor, and eight in ten Tajikistanis are. In a survey conducted by the Open Society Institute, eight out of ten of those polled said, hardly surprisingly, that the main reason to turn to drug trafficking was to make big money. Geography also contributes to Tajikistan's drugs problem: at 1,400km, the country's border with Afghanistan is longer than its Central Asian neighbours', and commensurately more difficult to guard. Afghanistan's north-eastern province of Badakhshan, an important poppy-growing area, is close to the border with Tajikistan. From there, most narcotics move to Uzbekistan and Kirgizstan (where Osh has become a hub of trafficking) before continuing to Kazakhstan and onwards to Russia.

The nature of the traffic is changing. Before being shipped out of Afghanistan, opium is increasingly being processed into heroin, which has a much higher value and is easier to conceal and move around. Traffickers have also learnt to move it in smaller and more frequent shipments.

Heroin first appeared in Central Asia in the early 1990s. Last year, close to five tonnes were seized, and the amount actually getting through is probably 10-20 times bigger. The quality is getting better, too. In 2001 unhappy Russian customers returned some heroin to Afghanistan, but last year the buyers must have been content: the value of heroin being trafficked through Central Asia at least trebled.

AP

Plenty more where that came from

A little help from our friends

Regional price variations in Afghanistan are disappearing, which means that the opium trade, once fragmented, may be on its way to becoming a single integrated market. In Central Asia, criminal networks are believed to be getting help from high-level officials in the security forces and in the government, and weak banking systems make it easy to launder money.

The problem is particularly acute in Tajikistan, where the state structures remain fragile after the civil war and business opportunities are limited. As Shirin Akiner, an academic who specialises in Central Asia, observes: “In the past, prospective Tajik leaders lobbied Moscow for backing. Today, it is the criminal world within Tajikistan that provides support for would-be political actors.” The International Crisis Group (ICG), a think-tank, reported that Tajikistan's former ambassador to Kazakhstan was twice caught with drugs, on the second occasion with 62kg of heroin and a large stash of money, before being expelled. The country's trade representative was caught with 24kg of heroin.

But Tajikistan's president, Mr Rakhmonov, appears committed to fighting the plague, and seizures of opiates are on the rise, reflecting not only increased traffic but also better law enforcement. With foreign money and help from the UN, a drugs-control agency to consolidate all anti-drugs activities was set up under the direct control of the president in 1999, a model that has now been introduced in neighbouring Kirgizstan as well. Border guards are better equipped and trained to deal with drug trafficking. Cross-border co-operation between law-enforcement agencies is also improving, especially between Kirgizstan and Tajikistan. But the bigger number of checkpoints staffed by underpaid officials also provides more opportunities to extort money from drivers.

Penalties for drug trafficking are stiff. In Tajikistan, the legal arsenal includes prison sentences of 15-20

years as well as the death penalty. According to the ICG, during a visit to Khatlon province near the Afghan border last year, Mr Rakhmonov threatened to deport entire villages if even one resident was caught smuggling drugs. In April 1998, Kirgizstan became the first country in the region to adopt a comprehensive drugs law, including the death penalty for large-scale trafficking. A draft law on money laundering has been prepared. Harsh punishments alone, however, are unlikely to stop the traffic, as Iran's example shows. Penalties for dealers there include execution, but the drugs trade continues.

Besides, only the small fish seem to get caught. In April, in one of the largest catches this year in Kirgizstan, a lorry driver heading back from Tajikistan was caught with large amounts of opium and heroin hidden in his fuel tank, but he was arrested before making his delivery, so the trail was lost. Increasingly, women and children are used as couriers because they attract lower penalties. The people who pull the strings are rarely caught. The immunity granted to members of parliament and diplomats does not help, nor do endemic corruption and weak courts.

Even if the law could be enforced effectively, the poverty that tempts so many to turn to drug-dealing in the first place still needs to be tackled. Foreign money can help. In Gorno-Badakhshan in Tajikistan, the Aga Khan Development Network's assistance programmes, which are conditional upon a fall-off in narco-business, have led to a considerable improvement. The UN and other donors are helping the governments in the region to fight drug-trafficking. But the treatment and prevention of addiction still needs far more attention and resources.

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Your move

Jul 24th 2003
From The Economist print edition

The best hope of a stable Central Asia lies with the leaders of the region itself

CENTRAL ASIA has come a long way since independence, but it is still facing serious security problems. This is partly because it lives in a tough neighbourhood. Even with the Taliban gone, Afghanistan is likely to remain a source of worry and a destabilising force in the region for the foreseeable future.

The Soviet heritage is also partly to blame. The dislocation created by a difficult transition from socialism to a market economy has swelled the ranks of the poor; and arbitrary borders, the destruction of a common identity and unbalanced water management have fostered regional divisions.

America, Russia and China have all been keen to boost the region's security system, which collapsed with the Soviet Union and has not been replaced. Regional security treaties have been signed, but none seems to offer much comfort. The Central Asian countries have failed to back their promises with resources. The collective security treaty of the Commonwealth of Independent States (CIS) covers only part of the region and has proved fairly ineffective. Still, an anti-terrorist centre and a rapid-deployment force of sorts have been set up, and joint military exercises are conducted regularly. In April, members met in Dushanbe to strengthen the treaty, but not much is likely to happen. The Shanghai Co-operation Organisation, made up of China, Russia and the Central Asian countries except Turkmenistan, was set up to deal with border issues, but has recently concentrated on anti-terrorist measures.

Regional tensions, uneven military capabilities and different perceptions of security threats—and how to deal with them—have undermined attempts to rebuild collective security. Nor does it help that Central Asian foreign-policy priorities are at odds. Uzbekistan has been wary of what it sees as Russia's attempts to regain lost ground in the region, and is firmly putting itself on America's side. Turkmenistan has chosen neutrality and isolation. Uzbekistan quit the CIS collective security treaty in 1999, and Turkmenistan refused to join in the first place. The others have been keen to be friends with America, Russia and China all at once.

Kirgizstan has been particularly good at covering its back. It has an American military base on its territory and will soon host a Russian one, and has conducted military exercises with the Chinese. Two regional anti-terrorist centres are based in Bishkek. “Our army is multinational,” jokes Chinara Jakypova of the Institute for War and Peace Reporting in Bishkek. “It receives clothes from Russia, food from China and communication equipment from the United States.”

Throughout the region, security relies mainly on bilateral arrangements. Since the war in Afghanistan, America has been maintaining military bases in Kirgizstan and Uzbekistan. It also provides non-lethal military assistance and training to most of the Central Asian countries and is supporting anti-drugs programmes and anti-terrorist measures.

AP

Jiang Zemin and Vladimir Putin, centre, meet Central Asia's big guns

The Russians have been eager to gain more of a presence in their traditional back yard, and some analysts think their influence is bound to increase, not only for geographical reasons but also because of historical and cultural links. Tajikistan's borders are still guarded by Russian units, and a new Russian military base is to open in Kirgizstan this autumn. China's security interest in the region is influenced by the problems with its own Uighur separatists in western China, and is focused on border control and anti-terrorism.

Don't overdo it

All this interest from big powers, however, has sparked fears that they might one day compete with each other in the region. In a speech at the annual meeting of the European Bank for Reconstruction and Development, Uzbekistan's President Karimov pleaded that: “Central Asia should not become the place for geopolitical competition and the formation of military-political blocks.”

This is a particular worry for the smaller countries such as Kirgizstan, which is surrounded by giants. So far, says Muratbek Imanaliev, a former Kirgiz foreign minister, America's and Russia's interests in the region have been closely aligned because they are both committed to fighting terrorism. And for the moment, the international interest in the region, besides resulting in military assistance, has helpfully translated into more aid money and debt rescheduling for its poorer countries. But if this were to change, the region could once again find itself at the centre of a new Great Game.

The main responsibility for continued stability in Central Asia, however, lies with its own leaders. Hence the pressure from the West to improve human rights and promote the development of civil society and a free press. All this amounts to a cultural revolution for regional leaders who, true to their Soviet training, continue to believe that stability is achieved through control. Such control comes in varying shades, from blunt repression in Uzbekistan and Turkmenistan to more subtle legal guerrilla warfare in Kazakhstan and Kirgizstan, but everywhere the mix includes rigged elections. Some of the methods may differ, but the philosophy is the same. By refusing to modernise, the region's leaders are undermining the very stability they are so anxious to maintain.

So what are the prospects for Central Asia? The best hope is that the next generation of leaders will be compromise candidates acceptable to both the outgoing presidents and to the opposition. Such a gradual transition would allow time for the system to be genuinely reformed and for the opposition to get into shape before democratic elections are held. This could well happen in Kazakhstan, and possibly in Kirgizstan too. Both countries have introduced useful economic reforms, but to make these fully effective they also need to separate political power and business interests, free their press and make their courts more independent.

In Turkmenistan and Uzbekistan, this sort of gradual change could be a long time coming, and require another interim generation of leaders. Alternatively, change could come much more abruptly, perhaps violently, as foreshadowed by an alleged assassination attempt on Turkmenistan's president last November. And in Tajikistan the civil war is likely to take a while longer to get over before the country feels it can afford a real opposition.

Governments in the region often complain that the West expects too much, too fast. But if they move too

slowly, frustration among their own people could play havoc with their leisurely timetable.

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Regulating business in America

America's regulatory mess

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Regulatory policy in America is now highly political, and that is hurting business

AT THE Federal Communications Commission (FCC), regulators have abruptly altered telecoms policy and issued surprising last-minute rules re-regulating radio broadcasters. At the Federal Energy Regulatory Commission (FERC), where deregulation was once an article of faith, regulators have suddenly reversed course, backing away from liberalising the retail electricity market. At the Securities and Exchange Commission (SEC), Harvey Pitt, its ex-boss, was crushed by attacks from Congress. Michael Powell, the FCC's head, may soon suffer the same fate: this week, the House of Representatives voted against a recent FCC relaxation of national ownership limits for broadcast-TV firms. The Senate is expected to follow suit.

The regulation of big business has always attracted the interest of America's politicians. The FCC's allocation of the television airwaves in the 1950s involved much special-interest lobbying. Yet the recent turbulence in government policy on industries spanning telecoms, energy, finance and the media suggests that politicians are exerting their influence over regulatory decisions more than ever before.

With hostility towards big business in America still raging, the politicians have mostly used their muscle to impose more restrictive policies. One recent study by the Cato Institute, a libertarian think-tank, found that the administration of George Bush, a supposedly deregulation-minded Republican, published more pages of rules and regulations last year than any previous administration in any previous year.

Stroke of the pen risk

This is not all bad. The politicians have bullied the regulators at FERC and the SEC into tougher enforcement—arguably, just what was needed. But for firms, political meddling—dubbed “stroke of the pen” risk—has also created chaotic and incoherent regulatory policies, making planning trickier and hampering investment. The FCC's decision on media rules in May, for instance, included new ways of measuring market share in the radio industry. These new methods, which make radio-ownership rules more restrictive, found favour only during the last few weeks of an FCC review process that took over a year. Andy Levin, a lobbyist for Clear Channel Communications, America's biggest radio broadcaster, believes the FCC abruptly changed course because of political pressure, as critics of the FCC's deregulatory posture focused their attacks on smearing Clear Channel. Mr Levin says he has “never known it so political” at the FCC.

California's governor, Gray Davis, has spent the past few months bullying energy firms into renegotiating long-term electricity contracts that Mr Davis signed when prices were high. Democrats in Congress leant heavily on federal regulators to review those contracts themselves. The regulators eventually ruled that they were valid. But FERC's willingness even to consider tearing up the contracts has deeply unsettled an industry which makes heavy, long-term capital investments. Cinergy does business in South Africa, Greece and Zambia. Nowhere are the political risks facing the industry higher than in California, says its boss, James Rogers.

A surprise ruling by the FCC in February left Covad, a small, vulnerable provider of broadband services, struggling to understand its likely impact. The rule will change how Covad gets access to telephone lines needed for about half its business, and could add to costs. It emerged only after a chaotic compromise struck between squabbling commissioners following intense lobbying by rival telecoms firms. Five months since its decision, the FCC still has not published the crucial details. “If you hear anything,” says one Covad official, “let us know”.

One reason why political interference in regulatory policy may be spreading is that political funding from big business has risen sharply in recent years, and donors want results. Today's ruling Republicans play the regulatory game particularly well. Tom DeLay, the Republican leader of the House of Representatives, is a master at extracting special-interest funding. Mr Bush's team is full of ex-officials from heavily regulated utilities.

The deregulation over two decades ago of airlines and the trucking industry involved government stepping out of the way, says Robert Litan of the Brookings Institution. The deregulation of the telecoms and electricity industries in the 1990s, on the other hand, entailed regulators prising open monopolised markets, against the wishes of incumbents. That necessitated a system of “managed” competition, with elaborate rulebooks to set terms of access, pricing and so on, subject to periodic revision. This has created incentives for firms to lobby politicians in hopes of changing rules in their favour. In telecoms, where the rules are reviewed every three years, arcane rulings by the FCC can boost or harm even the biggest firms, and create or destroy smaller fry.

The controversial nature of these regulatory experiments has attracted a more legitimate sort of interest from politicians—but still added to the policy turbulence. Some on the right claim that managed competition is not deregulation at all; artificial competition was manufactured by re-regulating former monopolies, such as local telecoms firms. These policies distorted investment decisions and fed the bubble. Some on the left charge that deregulation failed because former monopolies captured the regulators, who then failed to open markets properly. These lines of argument lead to opposite solutions: reverse policy, or strengthen it.

Also, thanks to their increasingly active attorneys-general (an elected job that can be a prelude to becoming governor), the states have become more involved in regulatory decisions that were previously left to the federal authorities, from antitrust to drug pricing to securities regulation. This competition between state and federal governments adds further uncertainty. A “global settlement” of conflicts of interest problems in the securities industry, negotiated by the SEC and Eliot Spitzer, New York state's attorney-general, turned into a notably messy and chaotic business. Drug firms now have to cope with different actions taken by dozens of states to restrict drug-price increases.

It is tempting to blame the regulators. Harvey Pitt, the SEC's ex-head, was roasted for his clumsy political skills. The FCC's Mr Powell now faces similar charges. It might be fairer to blame George Bush. Adam Thierer of Cato says that Mr Bush has hung Mr Powell out to dry. Who knows what Mr Bush's team really believes about telecoms or media deregulation, or the rights and wrongs of Wall Street? “I cannot identify anyone in the administration who even thinks about these issues,” says Mr Thierer. Without protection from on high, regulators are exposed to the whims of Congress. So it is hardly surprising that, despite their best intentions, they start to behave like politicians with short time horizons instead of technocrats implementing long-term policy. With all that lobby cash sloshing about, it seems it has become too difficult for politicians such as Mr Bush to give policy a clear direction.

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Disney

The tragic kingdom

Jul 24th 2003
From The Economist print edition

Why Michael Eisner's reign at Disney should end before it is too late

Get article background

IN THE classic Disney plot, the hero gets into deep trouble, yet ends up triumphant. Alas, real-world stories do not always end so happily, as the company may soon discover. Disney can wish upon as many stars as it likes, but there is no way that its boss, Michael Eisner, is going to return to his past glories. Indeed, other than those with a financial interest in cheerleading for him, it is hard to find anybody in the media business who doubts that he has become a problem for the firm—or that the longer he stays the greater the danger that Disney will be so weakened that it does not survive as an independent entity.

Mr Eisner in his pomp was truly glorious. Between 1984 and 1997, he raised Disney's revenues from $1.65 billion to $22 billion, and its market value leapt from $2 billion to $67 billion. The personal fortune he accrued during that time was well-deserved. Equally clearly, bad luck and other factors beyond the control of any boss have played a part in Disney's recent troubles. But its profits in 2002 were a third lower than in 1997, and its shares have underperformed the broad media index by 30% since they started to fall in 2000. A slow economy and fear of terrorism have hit attendance at its theme-parks, and most media companies have suffered from a slump in advertising revenues.

Better luck may bring some relief, not least in higher theme-park attendances. But Disney faces severe strategic problems that Mr Eisner is struggling to get to grips with, not least because some are of his own making. Above all, his difficulties working with, and thus retaining, talented senior executives have gone from being an entertaining source of media gossip into a reason to ask serious questions about the quality of the firm's top management. These questions have become more pressing as investors and—or so rumour has it—some members of Disney's board ponder what may soon be the post-Eisner era.

It will take more than better luck for Disney to continue to do anywhere near as well as it has done from its most important relationship, with Pixar, an independent animation studio headed by Steve Jobs, best known as chief executive of Apple. Under the two companies' existing agreement, Disney and Pixar share the profits from films that the firms together make and market. Pixar's hits (including “Toy Story 2” and “Monsters Inc”) account for roughly 40-50% of Disney's studio profits since 1999, according to Morgan Stanley. Pixar has to make a few more films for Disney, but Mr Jobs can start looking for a new deal this year, and he is in a strong position to demand a larger share of the spoils, or even to choose another partner.

Disney's strongest in-house earner is ESPN, a multimedia sports company whose popularity with viewers has allowed it to lift its fees to cable and satellite operators by 20% a year. But these revenues will grow at a slower rate in future. Cable operators such as Comcast, under attack from politicians for their high prices, are pushing hard against big increases, and Disney is negotiating. George Bodenheimer, president of ESPN, says that Disney will sell cable and satellite operators new products—the ESPN flagship network in high definition, a 24-hour Spanish television network, ESPN Broadband, ESPN video-on-demand and more—to offset smaller price increases. Maybe.

The thorniest strategic problem facing Mr Eisner is how to stop the ABC television network losing millions of dollars each year. When Disney bought Capital Cities/ABC in 1996, the network ranked number two among 18-49-year-olds and was profitable. Since 1997, ABC's average 18-49 prime-time rating has fallen by 1.5 points, more than the broadcast industry, according to Morgan Stanley. Tom Wolzien at Sanford Bernstein estimates that it lost $400m last year (Disney does not break out the numbers). He thinks it could break even in fiscal 2005, reflecting better programming that is starting to pay off.

Making a familiar argument, Thomas Staggs, Disney's chief financial officer, says the network should not be judged in isolation—meaning that an idea generated by one bit of the business can be developed and sold across other media. In the long run, though, says a former senior executive at Disney, the network is an “albatross” around the firm's neck and should be sold. As cable and satellite channels draw audiences away from broadcast networks that have only one source of revenue—advertising—only the strongest will survive the squeeze, he says. ABC has been out of the top league for too long.

It is hard for empire builders to break up their empires, which is one reason why Disney might be better off under a new boss. But there are others. One mogul who knows Mr Eisner wonders whether he has the energy to revive the firm. Another well-placed observer says that Mr Eisner displays “a Nixon quality”, in the sense that his problems getting along with people could yet turn into a potentially fatal flaw. Disney's list of senior departures is well-known, and some would say natural—strong chief executives often drive people away. But it looks as if another round of departures may be imminent: another senior executive is said to be thinking of leaving, and others are unhappy.

“Organisations this large and complex need strong partnerships at the top,” says Roger Fransecky of the Apogee Group in New York, which advises many media bosses, “and Disney does not seem to have one.” Robert Iger, Disney's chief operating officer, has not managed to fill the gap left by the death in a helicopter crash in 1994 of Frank Wells. Mr Wells was able to temper Mr Eisner's brusque management style during the firm's boom years.

Mr Eisner shows no signs of going, however. Aged 61, he has not identified a successor publicly—when even such other supreme corporate rulers as Sandy Weill of Citigroup have been forced to. His corporate-governance reforms—bringing on to the board heavyweight non-executives such as George Mitchell, a former senator, in place of Mr Eisner's architect, an actor and a school head—have probably bought him time. A remade board is unlikely to rush to judgment; and the reforms also removed Stanley Gold, along with Roy Disney the fiercest boardroom critic of Mr Eisner, from some key committees.

If forced to nominate a successor, Mr Eisner would probably opt for Mr Iger. But people inside and outside the company doubt he is up to the job. Rumours suggest that outside candidates such as Peter Chernin of NewsCorp and Jeffrey Bewkes of AOL Time Warner have been sounded out by investors about what should be done at Disney. But there is also speculation that Disney's future lies in becoming a takeover target. The likeliest suitor is Comcast, which could marry Disney's content with its distribution power. Comcast's executive vice-president, Stephen Burke, knows Disney's assets well, since he was president of ABC Broadcasting until 1998. The return of the lost leader; now there is a plot Disney should be able to understand.

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Indian television

Murdoch's twinkler

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A political battle over Rupert Murdoch's Star TV

EACH Wednesday night in recent weeks, Star News, a Hindi language TV news channel produced in India by an offshoot of Rupert Murdoch's News Corp, has had to obtain the Indian government's permission to broadcast for the next seven days via its regional base in Hong Kong. This ritual will continue until Star News comes to terms with the government over its ownership, and satisfies critics that its Indian equity partners are not cronies there to do Mr Murdoch's bidding. When a deal is eventually done, Star will have a ten-year licence to take its news programmes direct from its base in Mumbai.

The dispute is complicated by Indian business rivals and sympathetic politicians lobbying the government on an issue that has reached the office of the prime minister, Atal Behari Vajpayee. In full-page newspaper ads on July 21st, Star complained of “a mix of vested interests, commercial pressures and competitive agenda” and a “media campaign aimed to confuse and mislead people”.

Star India, wholly owned by News Corp, is now the market leader. Star Plus, a Hindi entertainment channel, has 45 of the top 50 programmes and 56m viewers—its main Indian-owned rival, Zee TV, has 33m. The market share of Star News, which gave up English language programmes nearly four months ago, has soared from 7% to 30%. Zee News has dropped from 25% to 17%; Aaj Tak, another news channel, has gone from over 60% to 37%. Subhash Chandra, who controls Zee Telefilms and was once Mr Murdoch's joint-venture partner, is widely believed to be using links inside Mr Vajpayee's Bharatiya Janata Party to lobby against Star. *India Today*, a weekly news magazine within the Indian group that owns Aaj Tak, has run critical articles—the latest headlining Mr Murdoch as “Boss of the World”.

India changed its TV news rules last March, limiting any foreign partner to 26% of the equity, in line with newspaper ownership rules. But it did not repeat the newspaper rule that 51% of the equity must be held by a single Indian investor. Star has spread remaining shares in its editorial firm, Media Content and Commercial Services, among six apparently friendly Indian investors. This has led to accusations that News Corp will be the dominant influence behind the scenes, as it is in its FM radio operations.

Star News may yet be required to lock in an Indian investor with at least a 26% stake, to restrict changes of ownership, or to get a single 51% Indian investor. This has led to speculation that Mr Murdoch might find a powerful local business partner—maybe Shobhana Bhartia, who runs the *Hindustan Times*, part of a large industrial group controlled by her father, K.K. Birla. At least that might help to insulate the world's best-known media baron from further concerted attacks as his Star rises.

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Hong Kong

Democratic dividend

Jul 24th 2003 | HONG KONG
From The Economist print edition

Hong Kong's political turmoil just might be good for business

AFP

Good for business?

Get article background

BUSINESS people hate uncertainty. Particularly in Hong Kong, where political apathy was implicitly traded for commercial freedom after the former British colony was handed back to China in 1997. In recent weeks, Hong Kong has seen popular demonstrations for more democracy, cabinet resignations and its chief executive, Tung Chee-hwa, again *kowtowing* to his masters in Beijing. All this after the damage from SARS earlier this year.

The effects of SARS shrank the economy in the second quarter, pushing Hong Kong into its third recession since the Asian financial crisis, says a new report from bankers at HSBC. Unemployment is at a record high; figures published on July 22nd show deflation worsening and a budget deficit, which could exceed 7% of GDP this year, wider than thought.

Yet, extraordinarily, some local businessmen are quietly upbeat. Why? China's muted reaction to the political upheavals is one reason. This has boosted public confidence, which was starting to revive anyway after the containment of SARS. Edward Leung, chief economist of Hong Kong's Trade Development Council says: “That China didn't overreact is a good sign. Especially now that Hong Kong is in a good phase for business”.

Hong Kong's traditional boosters would say this, but restaurants, bars and shops are filling up again. Queues of mainland Chinese tourists trying to book weekend getaways to Hong Kong became so long last week that travel agents had to recruit retired employees to cope. Hotel occupancy is up to 60%, from below 15% in May. Property prices, which underpin a lot of local wealth, are still depressed, but demand for offices and apartments is returning, say estate agents.

Most foreign businessmen think that demand for greater democracy is good for Hong Kong, because it would provide the most stable system of government in the long term. Their main concern is that it be achieved without disruption. In that sense, recent events have been encouraging. Jim Thompson, chairman of the American Chamber of Commerce in Hong Kong, says that, while the size of the July 1st demonstration, in which 500,000 people took part, was a shock, the behaviour of demonstrators was exemplary. “This was people power without violence swaying a government. Business sees this a positive

for Hong Kong, not a negative.”

Mainlanders do not share the same political heritage. But, all being well, as they become wealthier they too may demand a good legal system, clear protection of property rights and—eventually—democratic privileges. If Hong Kong can preserve, or even extend, the lead it has over the mainland in guaranteeing residents individual freedom and security, it will remain an attractive place for Chinese tycoons and entrepreneurs to settle and invest.

Hong Kong's government has at least managed to pull off one economic coup: the recently signed Closer Economic Partnership Arrangement (CEPA) with China. Mr Tung was at pains to play this up during his visit to Beijing last week, getting its terms extended. Starting in January 2004, 90% of Hong Kong's domestic exports to the mainland will be freed from tariffs. In addition, 18 service industries, including advertising, accountancy, legal and financial services and (as from last week) telecoms, will be granted market access.

This gives Hong Kong-registered firms a two-year head start on overseas competitors that, under China's WTO commitments, will not gain the same opportunities until 2006. Denise Yam, an analyst with Morgan Stanley, believes that through CEPA“Hong Kong's role as the window to China will likely be revived.”

As manufacturing has gone to the mainland, Hong Kong has reinvented itself as a service centre. Demand for skilled lawyers, accountants and consultants will grow as Chinese firms seek the kind of intellectual property and business protection that Hong Kong-based and foreign firms enjoy. Advertisers and public-relations advisers will also be needed, given the changing tastes of Chinese consumers.

Under the agreement Hong Kong films will no longer be counted as “foreign” in the mainland, which allows only 20 to be shown a year. Nor will Hong Kong films need a story line based in China; CEPA requires only that “the plot or leading characters should be China-related.”

China could do more to boost Hong Kong's economy. Its “qualified domestic institutional investor” scheme may allow Chinese investors to buy Hong Kong-listed stocks. Another move may be to relax exit restrictions, letting mainlanders live in Hong Kong—and bring their money with them. Hong Kong also hopes to be officially allowed to trade China's currency, the yuan. This could be one political upheaval that has a silver living.

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Companies and universities

A little learning

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The company of the future?

AP

Larry the model chief executive

WHAT might the company of the future look like? Lawrence Summers, a former Treasury secretary who is now president of Harvard University, suggests in the latest *Harvard Business Review* that the American research university (ie, Harvard and its few peers) might be a model. He does not mean that firms should set up their own "universities"—although plenty, from Motorola to McDonald's, have done that. Instead, they should adopt the research university's fluid and decentralised approach to creativity and hierarchy. "If you look at the organisations in the economy where the greatest value is being added," argues Mr Summers, "they are increasingly the organisations that share the values and character of universities."

Certainly, there are aspects of the university that firms might envy. They are, to start with, extraordinarily durable institutions: Mr Summers's own Harvard, founded in 1636, is a mere stripling compared with the University of Bologna, founded in 1088, or Paris and Oxford, born less than a century later. They are hugely successful: there are far more of them, and far more students, than ever before. In the rich world alone, 39m people are now taking a university course of one sort or another. And they teach more subjects than ever before. Anyone tempted to mock McDonald's Hamburger University should look at the classes in food technology and catering that plenty of modern universities now provide.

The successful university has other characteristics that firms increasingly aspire to: it gathers, under a single powerful brand, individuals contracted to supply it with all or part of their intellectual capital, in return for the provision of common services. Moreover, the deals struck by the most successful academics when they transfer from one university (often European) to another (usually American) are becoming more lucrative, with all sorts of perks regarded as normal.

But there is one big difference that Mr Summers neglects to mention. Universities everywhere are largely state-financed. Harvard's students may pay for their teaching, but the university's research, which Mr Summers urges firms to emulate, is heftily subsidised with public money—along with hand-outs from the university's huge endowment.

Public support gives most universities a financial stability that companies do not enjoy. It explains why, to quote Mr Summers, "the authority of ideas, rather than the idea of authority, reigns supreme" at universities. Sure, companies flourish on the back of big ideas. But on the whole it is their application that makes money. To put a good idea effectively and profitably into practice generally requires managerial experience and the exertion of authority. That is why clever 25-year-old graduates rarely run durably successful companies, even if they are from Harvard.

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Boeing

Lost in space

Jul 24th 2003
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Boeing has more than a sinking market for passenger jets to worry about

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BOEING this week reported a net loss of $192m in the second quarter, due largely to a $1.1 billion write-off in its space business. This is the latest misfortune to hit the firm, which has been remarkably accident-prone since moving its head office to Chicago from Seattle in September 2001, days before its civil-aviation business was thrown into crisis by the terrorist attacks. The move was supposed to symbolise its strategy of diversifying into defence, space and aviation-services markets, such as air-traffic management.

Since then, Boeing has scrapped two new products (the Sonic Cruiser jet and a new version of the 747), settled a shareholder lawsuit for $90m, and watched its rival, Airbus, overtake it in passenger jets. Last week Boeing announced a further 5,000 job cuts in commercial aircraft, taking the overall reduction in the past two years to over 40%. Commercial aircraft deliveries are down by a third on the second quarter of 2002; profits are down by 44%.

The latest troubles, though, concern a business that was to offer relief from the woes of civil aviation. Boeing has poured $5 billion into its space business since the mid-1990s, assuming a boom in satellites and launcher rockets as demand for broadband communications grew. The telecoms bust ended that boom before it began. Boeing is now shrinking its satellite business and focusing on government contracts.

Boeing also faces an embarrassing industrial espionage scandal involving two former mid-ranking executives in its rocket business. On July 17th, a grand jury in Los Angeles indicted the executives for misuse of proprietary information belonging to Lockheed Martin during bidding for rocket contracts from the US Air Force. If convicted, they could be jailed for up to ten years. Although Boeing fired the pair in 1999, it still faces potential penalties if it is judged to have encouraged their activities. Lockheed has filed a civil suit, and the Pentagon might decide to rescind some Boeing contracts and give them to its rival.

Military confrontation

Now that Airbus is making the A380 super-jumbo, it competes with all of Boeing's jets. So far this year the European group has won 40% more orders than Boeing and is on track, for the first time, to deliver more aircraft. Boeing's domestic customers are all but broke, and are queuing up to cancel or postpone deliveries.

The battle is opening up another front. EADS (which, with BAE, owns Airbus) is taking Airbus into the military market. Airbus's military subsidiary snatched an *euro*18 billion ($21 billion) contract to supply seven European countries with a new military transport aircraft from under the noses of Boeing and Lockheed Martin. The Americans now face European competition in a market where they once enjoyed a near-monopoly, just as they did in passenger jets. The modern need to fight wars in far-off places puts a premium on troop transporters, and on air tankers to refuel fighters and other aircraft far from base.

Last year, the American government did not take seriously a rival bid by Airbus to supply tankers, instead opting to lease from Boeing in a controversial $16 billion deal. But the British government is considering bids involving both Boeing and EADS to supply the Royal Air Force with refuelling services for 27 years, for about £13 billion ($21 billion). Boeing has teamed up with BAE (encouraging speculation that one day it will buy the firm and sell its Airbus stake) and others to offer a service package based on

second-hand Boeing 767s bought from British Airways. EADS has a rival consortium involving Rolls-Royce and Thales (French, but with factories in Britain). It plans to use new, modern Airbus A330s, which have a higher payload and a longer range. Boeing says this is irrelevant; with just three more planes, they could deliver as much fuel.

All the planes will be available at short notice to the RAF, but will spend most of their time leased out to commercial airlines, earning cash shared between the private consortium and the government. Thus the Ministry of Defence will get a refuelling service at a lower price than it would by keeping everything in-house, and buying up to 20 jets. The private-sector firms will bear the risk of needing to get enough revenues from third parties to make the deals profitable. If EADS wins, it will have broken yet another American aerospace monopoly, and can look forward to selling tankers and troop carriers around the world. It has even been invited to tender for the remaining 500 tankers that America is due to order in the next few years to replace its ageing fleet.

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South African mining

Strike from below

Jul 24th 2003 | JOHANNESBURG
From The Economist print edition

On top of their other troubles, mine owners face a strike

THESE are trying times for South Africa's mining companies. Two years ago a weak currency and high world prices boosted gold and other mineral exporters. No longer. For months firms have given warning that higher costs, due to the now strong rand, are hitting profits. This week the country's fourth-largest goldmining firm, Durban Roodepoort Deep, said it might have to close two mines and cut perhaps 13,000 jobs.

The firm may be scaremongering as it haggles with the National Union of Mineworkers over wages. The union wants pay rises of 20%, more than twice the rate of inflation. Bosses profited when the rand was weak but workers saw no gain, it says. Miners earn a minimum of 2,000 rand ($265) a month, and lost out as inflation surged last year. Durban Roodepoort Deep is offering only 2-4%, saying that higher wage rises will make its operations uneconomic. This week two rival firms offered to take the two mines off its hands, but they were quickly rebuffed.

The rest of the mining industry is also in talks, the toughest for many years. The last general strike, in 1987, came under the apartheid government. The protests had political as well as economic goals. The political heat is absent now, though miners do want better housing, welfare and medical help. This week the talks broke down and the union was set to serve legal notice that at least three goldmining companies, AngloGold, Harmony and Gold Fields, face a strike. Two coal producers, Ingwe and Kuyasa, could also be affected. Up to 160,000 workers may refuse to work unless wage offers are raised to 10% or more. The Congress of South African Trade Unions, representing 1.7m workers, said it would support the strike too. The gold price has edged up as traders fret that production will be hit.

The strike could be averted in last-minute talks. But a union spokesman, Moferefere Lekorotsoana, said on July 23rd that “I expect the strike is going to happen.” Either way, other problems will persist. Several firms are expected to show sharp falls in profits when they announce quarterly results shortly.

The mining houses are also waiting to hear details of the government's new mining royalties bill, under which the state will claim an extra 2-8% of revenues on various minerals. Mining companies want royalties charged on profits instead, and complain that the proposed rates are too high. The bill is supposed to go before parliament in August, after the treasury has considered it: more rows and warnings of doom and gloom are expected. The happy days of two years ago seem far off now.

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Natural gas

Fixing it, naturally

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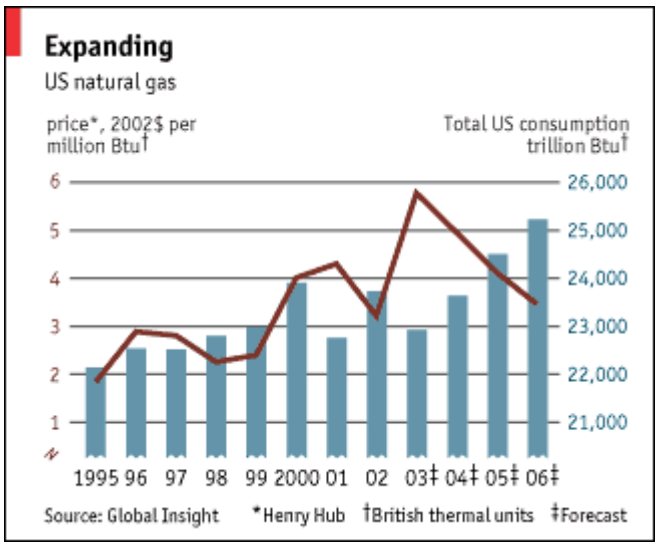
There is no supply "crisis"

THE conventional wisdom in America maintains that the country is in the midst of a serious natural-gas "crisis." Recently Alan Greenspan, chairman of the Federal Reserve, has twice given warning of the potentially severe harm from high natural-gas prices. And Spencer Abraham, Mr Bush's energy secretary, has repeated for the umpteenth time that there is a serious supply crunch.



At the outset such concerns seem reasonable. Prices were around $2-3 per British thermal unit (BTU) for much of the 1990s, but have risen closer to $5-6 per BTU of late (see chart). Prices were pushed up by an unrelenting rise in demand, owing to gas's cleanliness and the surge in popularity of cheap and efficient combined-cycle gas turbines in power generation.

Mark Papa, head of EOG Resources, an oil and gas exploration and production company, says high prices are going to persist for years due to what he calls "a perfect storm on the supply side": Canadian gas production is dropping, Mexico is importing American gas and the ageing gas-fields of the continental United States are entering a period of dramatic decline. And since this gaseous hydrocarbon, unlike liquid and easily transported oil, usually needs to be shipped by pipeline all the way from the well-head to the customer, the decline in North American supply is worrying.

Predictably, the domestic industry is seeking all sorts of assistance, including tax credits for exploration and price supports in return for building a pipeline from Alaska (where there are vast untapped gas resources in the Arctic region). Several bills in Congress could provide such help. This week, the Department of the Interior announced changes to give energy firms more access to federal lands. Robin West of PFC Energy, a consultancy, argues that some easing of restrictions makes sense: "Even super-green Canada and Norway allow offshore drilling, and have not seen major environmental problems."

Yet this is no real crisis warranting government intervention. For a start, the high price of gas is having the predictable effect of spurring alternatives: energy efficiency and conservation, switching from natural gas to oil and coal, and so on. More importantly, though, there is no global scarcity. There are at least 60-70 years' worth of natural-gas reserves left—perhaps even 200 years' worth. Saudi Arabia this week, after much shillyshallying, invited foreign firms to bid to help to develop its huge gas-fields. And thanks to the rise of liquefied natural gas (LNG) technology, still uncommon in America, natural gas can be a

“fungible” commodity traded globally, just as oil is today. Ralph Alexander, the head of BP's gas and power group, calculates that LNG capital costs have plunged by a quarter over the past decade, thanks to economies of scale and new technology; he thinks the trend will continue.

Several LNG port facilities that had been mothballed in America are now being revived. Conoco Phillips has just announced a multi-billion-dollar deal to deliver LNG to America from Qatar (which aspires to become the Saudi Arabia of LNG, before Saudi Arabia does). Even heavy energy users are getting into the game: Dow (which had a $1.2 billion rise in energy and feedstock costs, year on year, in the past quarter) has a provisional long-term deal with a firm hoping to build the first new LNG facility in America in 25 years, located in Texas.

All told, reckons Daniel Yergin, of Cambridge Energy Research Associates, a consultancy, the LNG market could soon take off. Last year, it accounted for perhaps 1% of America's gas needs; he reckons it might be 20% within two decades. Even the gloomy Mr Greenspan calls LNG a “safety valve” for the American economy. Some might call it a natural market response.

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Face value

Microsoft as America

Jul 24th 2003
From The Economist print edition

As Colin Powell is to George Bush, so Craig Mundie is to Bill Gates

Reuters

HE DOES not rock on his chair when thinking (and sometimes saying) that a reporter's question is the height of stupidity, as Bill Gates, Microsoft's founder does. Nor does he jump about a stage, screaming “I love this company”, like Steve Ballmer, Microsoft's chief executive. Craig Mundie, the software giant's chief technical officer, is not a typical Microsoftie. He has even been known to say such reasonable things as: “We have no right to autonomous execution. We have to be a responsible leader.”

It all sounds a bit like Colin Powell on one of his rare trips to Old Europe. This is no accident. Although there may be only superficial similarities between Mr Gates and George Bush (relative lack of sophistication, accident-prone speeches), and Mr Ballmer seems more a fusion of Dick Cheney (power behind throne) and Donald Rumsfeld (tells it like it is), Mr Mundie is unambiguously the secretary of state of the United States of Windows. As such, he is yet another sign, alongside the restructuring announced this week to improve financial control and the decision to forgo share options, that the global software bully has, to quote Mr Mundie, “recently exited adolescence”.

After he had co-founded Alliant Computer Systems, a supercomputer firm, Mr Mundie joined Microsoft in 1992 to create and run the “consumer platforms division” (making handhelds and other non-PC devices). Now, he is one of seven members of Microsoft's “senior leadership team”—or “cabinet”, as he calls it. He spends half his time talking new technology with Mr Gates and with other IT firms. The rest is dedicated to corporate diplomacy, such as helping foreign governments to “understand” issues such as spectrum allocation. He often goes to Washington, DC, to lobby over security, privacy and telecoms regulation. He has even joined a few high-powered committees and networking (as in talking) clubs, not least the Council on Foreign Relations.

But why should Microsoft need a secretary of state? Without pushing the analogy too far, Microsoft can be seen as the dominant nation in the digital realm—just as America is in the material world. With Windows, its rulers control the largest, richest digital territory: a software platform on which others can build, with its say-so, applications out of bits and bytes. Like a superpower, Microsoft has good reason to defend, even extend, its sphere of influence: what the firm calls its “ecosystem”.

Until recently, Microsoft excelled in an extreme form of unilateralism. It frequently absorbed new features

invented by others into its operating system—thus making life extremely difficult for many smaller software firms. It waged pre-emptive wars on rivals, the most dramatic being the one fought against Netscape, which threatened to create an alternative online software platform. Mr Gates espoused a doctrine of global sovereignty known as the “right to innovate”: code for “we can do what the heck we want.”

But lately, Microsoft has come to doubt the wisdom of such an assertive foreign policy. It has not given in to the knee-jerk anti-Microsoftism of the IT industry (“if you're the biggest guy on the block, people will always resent you,” says Mr Mundie). Nor has it been humbled by the long antitrust trial that left it a convicted monopolist, albeit relatively unharmed. Rather, it has concluded that its trademark unilateralism is bad for business.

Microsoft owes its dominance to a “land grab” in an uninhabited technical terrain (PC software), where there were no established rules and victory went to the smartest, most ruthless pioneer. Now, to keep growing, the firm must conquer territories that are quite different: harder to control (the internet), already populated (enterprise software, video games) or filled with people who learned from what happened in the PC business (rivals in cell phones and digital media).

This, in part, is why Microsoft is struggling to do what its critics always said it would: extend its Windows monopoly into other markets. Corporate IT managers do not want to be locked into Windows. Mobile-phone makers and record labels do not want to see much of their profit going to Redmond. Above all, technology is no longer just about bits and bytes, but “has political relevance”, says Mr Mundie. Microsoft learned this in the “identity management” row in 2001, over who should issue online IDs. By pushing hard its “Passport” authentication service, and related online offerings dubbed “HailStorm”, it scared the rest of the IT industry and some large non-technology firms into forming an alliance called Liberty to find an alternative.

Microsoft now says it believes in a new doctrine of multilateralism: “responsible industry leadership”. It sings the tune of open standards, developed in industry forums such as the World Wide Web Consortium (a bit like UN resolutions). It is even allowing many more customers, such as governments, to look at the Windows source-code, the program's secret recipe.

Operation enduring trust

Microsoft's new strategy is called “Trustworthy Computing”. This is first and foremost an ambitious effort to give its products what they have traditionally most lacked: security, privacy and reliability. But it also includes a goal called “business integrity”. How a company deals with its partners and customers, says Mr Mundie, will increasingly determine its brand, and thus people's purchasing decisions.

Unsurprisingly, Microsoft's critics do not buy any of this. To them the giant remains the unilateralist monopolistic superpower it has always been, even if it now dresses in multilateralist clothes. They have a point. At the least, if American foreign policy is any guide, it may be inevitable that Microsoft will swing back and forth between unilateralism and multilateralism. “We will listen as much as possible. But at some point we will have to take decisions which won't please everybody”, says Mr Mundie. It could as easily be Mr Powell.

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Wall Street

Secret affair

Jul 24th 2003 | NEW YORK
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Regulators turn their attention to the selling of mutual funds

AMERICA'S regulators are far from finished with Wall Street. Having pursued financial institutions for questionable practices in equity research and investment banking, they are now busy with a subject much closer to ordinary Americans: mutual funds. On July 23rd the House of Representatives' Committee on Financial Services proposed a law requiring investment firms to disclose commissions paid on the sale of mutual funds. Nine days earlier, state regulators in Massachusetts had charged Morgan Stanley with lying about the preferential terms given to brokers and branch managers for pushing the firm's own products. The Securities and Exchange Commission (SEC) and the National Association of Securities Dealers are also said to be investigating.

Rather than feeling reassured by the regulatory attention, investors may be dismayed by the bickering between regulators over who should do what. This acrimony is largely a by-product of arguments over the investigation into research and underwriting. However, it would be a shame if it distracted attention from the underlying case against Morgan Stanley, because the investigation has big implications. After all, mutual funds are the means by which even the non-wealthy, by clubbing together, can become capitalists. The mutual-fund industry is a $6 trillion business, and the investigation raises two important questions about how financial firms sell their products.

The first of these is whether, in selling a financial product, investment firms have a duty, like doctors and lawyers, to be truly objective in their advice. The second—just as important, especially if the likelihood of objectivity is slim—is whether customers should be made aware of the incentives that salesmen have to push one product rather than another. These the industry is reluctant to reveal.

Both issues are likely to matter more as broking houses continue to shift from selling stocks and bonds, which produce only one-off transaction fees, to selling packaged financial products. For most Americans, this means mainly mutual funds. For the rich, it might also mean hedge funds and private-equity participations. Packaged products generate annual fees for distribution and administration—and for management too, when the funds are managed in-house. Often, clients face disincentives to withdrawing their money, such as lock-ups or forced realisation of capital gains. All this makes packaged products highly lucrative for the investment firm. From the client's side, however, there are good reasons to think twice.

Having come through the research-and-underwriting investigation “relatively unscathed”—in its own words—Morgan Stanley may count itself unlucky to be the defendant in what might be the first of many mutual-fund cases. But should it be surprised? Morgan Stanley's proprietary funds have the biggest market share among the five largest broking firms, according to Financial Research Corp, a Boston research firm. This has made the bank a role model of sorts.

Yet the reason why the firm is able to sell its own funds so successfully has never been clear. According to Morningstar, a research company, Morgan Stanley's funds carry above-average fees and produce below-average performance. This is hardly a recipe for success in a business where, theoretically, a broker can sell another company's funds as easily as those of his employer. Alone among the big investment houses, Morgan Stanley refuses to disclose what proportion of its overall fund sales are proprietary, but the number is widely believed to be large, certainly over half; in some years it has been 80% or more.

In the past, there have been any number of efforts to stop firms pushing their own funds over those managed by third parties. A decade ago this was a chief recommendation of a report produced by Wall Street executives at the behest of Arthur Levitt, chairman of the SEC, who hoped to find voluntary remedies for industry failings. Some firms, notably Merrill Lynch, endorsed this idea. But Dean Witter, a retail broker that later merged with Morgan Stanley, was often accused of adhering to it more in the letter than in the spirit. If a broker sold an in-house fund, he would not be paid extra—but his branch manager would. Presumably the manager would then see the broker right.

The company was never keen to spell out such deals. This attitude seems to have spilled over into Morgan Stanley's dealings with the Massachusetts regulator. Earlier this year the regulator received a letter from a Morgan Stanley employee, claiming that the manager of a Boston branch of the firm had used threats that “were nothing short of extortion” to force brokers to push a new offering, a mutual fund that, according to its prospectus, carried an unusually high fee. Initially, Morgan Stanley denied there was any additional payment for selling in-house funds, but after an article in the *Wall Street Journal* gave details of the firm's practices, the state regulator issued a subpoena demanding information. Morgan Stanley acknowledged that it had “to correct a statement”: brokers and branch managers were indeed paid to sell in-house offerings and a few others. The firm later added that, through “business development and other programmes”, extra payments might also have been made for proprietary fund sales.

Despite the firm's admission, the scale of the case against Morgan Stanley remains unclear. The firm is being prosecuted for misleading regulators, not customers. To build a case from this that it had diddled any clients would be difficult. Although firms are obliged to disclose how much investors must pay, they do not have to reveal the salesman's cut. Secret inducements may sound sleazy, but they are no crime. Brokers must also sell clients “suitable” products, but “suitable” is defined broadly. A broker is not legally barred from recommending a mutual fund merely because it has higher costs and a worse record than another.

Luckily for investors, there is enough information published regularly for them to be able to compare lots of funds. They can buy low-cost products with excellent past records direct from such big firms as Vanguard, T. Rowe Price and Fidelity, as well as from several smaller firms. One drawback is that investors who choose to follow this route are given a bit less advice. However, the questionable quality of so much of the advice supplied by Wall Street in recent years suggests that they might not be missing much.

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About sponsorship

Bank robberies

Small denominations, please

Jul 24th 2003 | NEW YORK
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Heists are soaring in New York

AP

Caught in the act

ROBBING a bank in New York isn't hard. You need about two minutes, and you needn't bother taking a gun. A note handed to the teller, demanding money, will suffice. You don't even have to be good at robbing banks. One man tried to turn over seven last week, three on one day, and only got money in two: he was arrested on July 22nd. Most robbers get only a few hundred dollars, but when you put in so little effort, that's not a bad return.

The low cost of robberies to the banks may be one reason why their number has soared in New York this year. The city's police department says that there have been 50 armed and 230 unarmed robberies so far in 2003. This time last year, the scores were 18 and 66 respectively. A recent press conference about the surge in bank robberies was cancelled just before it was due to start, because another bank had been robbed.

Usually, banks simply add stolen money to the day's business expenses. They seem to do little to deter modern-day Butch Cassidys. In the past decade, many branches have got rid of uniformed guards, to cut costs. Now the banks rely on cameras, so that thieves are not caught at the scene but, like the woman in our picture, later. Bank tellers are trained to hand over the money, for their own safety and to get the robber out of the bank fast.

In January, the police launched Operation Safe Bank, in an attempt to reduce the number of bank robberies. But the number continued to rise. Last week Michael Bloomberg, the mayor, scolded some banks for treating robberies as a minor nuisance. Raymond Kelly, the police commissioner, says the banks have made robbery too easy. According to Mr Kelly, banks “have opted to do nothing” to prevent “note jobs”—stick-ups without guns. He blames the banks for being too customer-friendly. They are open longer, and have few bulletproof partitions between tellers and customers. Mr Kelly may be no marketing man, but he has a point. Commerce Bancorp, which calls itself “America's most convenient bank”, tops the police's most-robbed list.

In May the New York Bankers Association responded by issuing guidelines to protect staff and customers. Working with the police, it recommended that bank branches use digital surveillance cameras instead of video. It also suggested that banks use dye packs and serialised currency. But bank robberies continued to rise.

What can be done? More effort from the banks and co-operation with the police are needed. The last time Gotham saw such an increase in bank robberies, in 1979, the FBI and the police department formed a task-force that helped to reduce the number of heists. A decade ago, a robbery occurred every 42 minutes in Los Angeles, until a partnership was formed between the banks and the police. In Massachusetts many banks agreed that their customers must remove their hats and sunglasses once they crossed a bank's threshold. Of these branches, only 3% were robbed.

New York's experience, curiously, is against the national trend: elsewhere in America, says the FBI, robberies have declined since last year. So is New York enjoying its own local crime wave? Or has word of the easy pickings spread, luring America's robbers to the Big Apple?

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Japan's stockmarket

Bottom fishing

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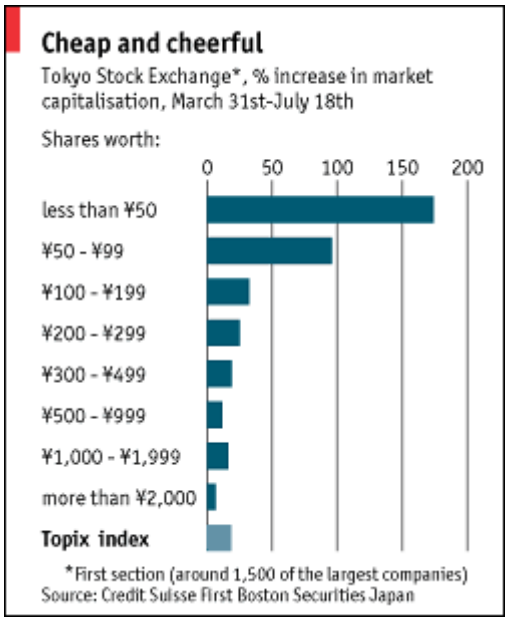
The rally in Japan's stockmarket has centred on the cheapest shares

THANKS in part to a global rally, Japan's stockmarket has been rising in recent months. After a brief stumble in May, when Resona, the country's fifth-largest bank, found itself short of capital and was forced to beg for ¥2 trillion ($17 billion) of public money, the market recovered quickly. The benchmark Nikkei 225 average has risen by 20% since the debacle, and Topix, a broader index, has gained 16%.

This may seem to be a sign of surging optimism about Japan's struggling economy. It probably is not. The biggest beneficiaries of the rally have been those companies with prospects so bleak that their shares trade for less than ¥50, the face value of most Japanese stocks. Shinichi Ichikawa, an equity strategist at Credit Suisse First Boston Securities Japan, calculates that the market capitalisation of companies with shares worth less than ¥50 on March 31st, the end of the fiscal year, had risen by 174% by July 18th (see chart). Those trading at between ¥50 and ¥100 had doubled in value.



Mr Ichikawa says that Resona's bail-out has created an odd sense of security among investors. The bank's shareholders have suffered little: indeed, the share price has almost doubled. Many believe that most of Resona's weakest borrowers will also be propped up. The bank, now in effect under state control, is reclassifying its loan portfolio, but it is unlikely to remove all the rubbish. It will probably send any loans it does dispose of to the Industrial Revitalisation Corporation, a government body charged with restructuring distressed companies with public money.

Furthermore, by rescuing Resona, the government has sent a message that it will not allow any of Japan's top four banks to collapse. This has reassured investors that weak debtors of other banks will also be supported, helping to raise the price of weak stocks. Tomen, a trading house that has twice received debt waivers from its creditors, has seen its share price shoot up by 60% since the Resona bail-out. Stocks in Isuzu, a struggling car company, and Towa Real Estate, another firm recently saved by a bank, have almost doubled in price. Just how long the trend will last is unclear: some weak construction companies have found that much of the fizz is starting to disappear.

Individual margin traders, who trade securities on credit, are thought to be the chief drivers of this trend. They often punt on fairly illiquid stocks with low market capitalisation. Foreign investors have been buying Japanese equities too, but they confine themselves to large and liquid shares. By contrast, data from the Tokyo Stock Exchange shows that individuals who trade in cash, and tend to make long-term equity investments, have been net sellers for the past two-and-a-half months. They remain unconvinced that the rally signals good times just ahead, and are selling while—by recent standards—prices look healthy.

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Central Europe and the euro

Patience, patience

Jul 24th 2003 | WARSAW
From The Economist print edition

Don't rush into the euro, central bankers say

A YEAR or so ago, when ten, mostly ex-communist countries were finishing negotiations to join the European Union, the path to adopting the euro shortly afterwards looked hilly, but not too difficult. To some, it now appears uncomfortably steep. Several candidates have bigger budget deficits than the entry conditions permit. One, Hungary, has been straining to cope with a gyrating currency. And Pedro Solbes, the EU's economics and finance commissioner, has said that candidate countries' currencies will have to spend two years in a narrow band, 2.25% either side of a central parity, not the 15% they had counted on.

Now central bankers are suggesting that some countries should be in no hurry to attempt the climb, even if the politicians are eager. At a joint press conference on July 16th, Hungary's government and central bank committed themselves to entering ERM2, the pre-entry exchange-rate mechanism, in May 2004, with a view to joining the euro in January 2008. Yet on July 21st the central bank sounded a note of caution. It was not clear, it declared, that Hungary would be able to join the euro at a time of its own choosing.

The central bank also cast doubt on the government's plan to cut the budget deficit, 9% last year, to 2.5% by 2006. Joining ERM2, it said, would stabilise the exchange rate only if the plan to join the euro looked credible. Given Hungary's recent difficulties, credibility requires more than setting a date. And planning to spend three-and-a- half years instead of only two in ERM2 is not exactly a sign of confidence.

The Czech central bank also says it would be foolish to rush. In a report published on July 15th, it advised its government to stay out of ERM2 until it is closer to meeting the Maastricht criteria for joining the euro for inflation, public debt, the budget deficit and long-term interest rates. It also gave warning that staying in the mechanism for longer than the minimum two years could call both the exchange rate and macroeconomic stability into question. “Even two years is a long time if you are not sure you can make it,” says Ludek Niedermayer, the deputy head of the Czech central bank. Unlike Hungary's, the Czech Republic's government is in no particular hurry.

The hesitating central banks were supported on July 21st by the monthly report of Germany's Bundesbank. By waiting outside ERM2, argues the Buba, the newcomers could preserve the monetary flexibility that they might need to cope with the pressures of the single market.

Not every candidate country has the same worries. The Baltic states already operate fixed exchange-rate regimes, which ought to make their transition to the euro fairly smooth. Some analysts, however, cannot see what all the fuss is about. Charles Robertson, of ING, a Dutch bank, thinks that the commission, although insisting in public on a narrow band, will turn a blind eye to temporary breaches. A few current members of the euro area were allowed plenty of leeway on some of the Maastricht criteria. The chances are that, if they want in, the newcomers will be, too.

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Electricity trading in Europe

Power play

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Is there life after Enron in Europe's power markets?

WHEN Enron collapsed in November 2001, the lights didn't go out all over Europe. But there were fears that markets for energy, in which Enron had been the leading trader in Europe as well as America, would never be as liquid again. The markets for medium-term bets on coal prices and weather conditions suffered. Although new American firms entered Europe's electricity and gas markets, none dared guarantee medium-term supplies to energy retailers, as Enron had done.

Eventually the Americans either went bust, like TXU Europe, or went home, like Dynegy and Mirant, which recently also went bust. The dream of efficient pan-European electricity markets, in which producers and retailers could hedge against fluctuations in demand and energy costs, and which might lead to lower retail prices, has faded.

Undaunted, traders, power companies and a handful of banks are still trying to make the market more transparent and less volatile. This is some challenge, for storing electricity is next to impossible. Delivering it to the right place at the right time is a precise science. Producing consistently is a special problem for wind farms, which might produce only 30% of their capacity in a year.

Europe has several energy exchanges. The most liquid for electricity is the Scandinavian exchange, Nord Pool, which trades or clears more than 150m megawatt-hours (MWh) a month, most of it for delivery within a few weeks. The European Energy Exchange (EEX) in Leipzig is smaller, trading 53.7m MWh last month, but it also has a lively futures market. The much smaller British, Dutch and French exchanges traded around 3m MWh between them in June.

Traders would love to turn the risks faced by suppliers, transmitters and retailers of electricity into financial products, so that they could hedge the hazards of weather, fuel supply and wind, and settle up in cash rather than in actual electricity. But that would require a commonly agreed pricing mechanism and confidence that power producers were not trading on the basis of inside information. Producers, after all, know about future output volumes, planned interruptions and the politics of supply.

Traders in Britain point to the abundance of timely, publicly available data of this kind. Their continental peers are more suspicious of the strength of incumbent power companies in some countries. A recent paper from the European Federation of Energy Traders notes that the British and Nordic markets are “incredibly transparent”, but many others remain “frustratingly opaque”. In concentrated markets, participants face the risk that their counterparties have “the ability to control, as well as superior knowledge of, future market developments”, the paper says.

The culprits are not mentioned in the paper, but traders talk of vertically integrated markets in Spain and Italy, in which power production and transmission are virtually in the hands of one or two national entities. The French and German markets are also dominated by big incumbent companies, such as Electricité de France or Germany's E.ON and RWE.

Britain has benefited from stricter rules on transparency brought in two years ago under the country's New Electricity Trading Arrangements. But power prices are still compiled from bids by distributors and offers by producers, not on the basis of actual trades. On July 18th a group of British power traders agreed to develop a more accurate mechanism based on actual trades, in preparation for financial rather than physical trading.

Electricity traders and brokers are working on other constraints to the market too, notably credit risk. Since the Enron debacle, only counterparties with high credit ratings have been trusted. Others must put

up collateral or face frequent margin calls. Spectron, an energy broker, has linked up with Britain's power exchange and EEX to offer clearing of over-the-counter (off-exchange) contracts.

Europe's energy traders are also lobbying hard against pending European Union legislation that could force them to back their trading positions with more capital. This, they worry, could drive out smaller players and force energy producers to have separately capitalised subsidiaries, and might strangle the market in its infancy.

Meanwhile, traders remain innovative. They have ideas that will help even wind farms to hedge against uncertainty. Entergy-Koch, one of the few American energy traders still in Europe, offers bets against a monthly wind index for ten locations. The owner of a wind farm would be paid when wind speeds were low and not much power is produced, and would pay money out when winds were unseasonably strong. Entergy-Koch has done a few deals—mostly, not surprisingly, with financiers of wind farms.

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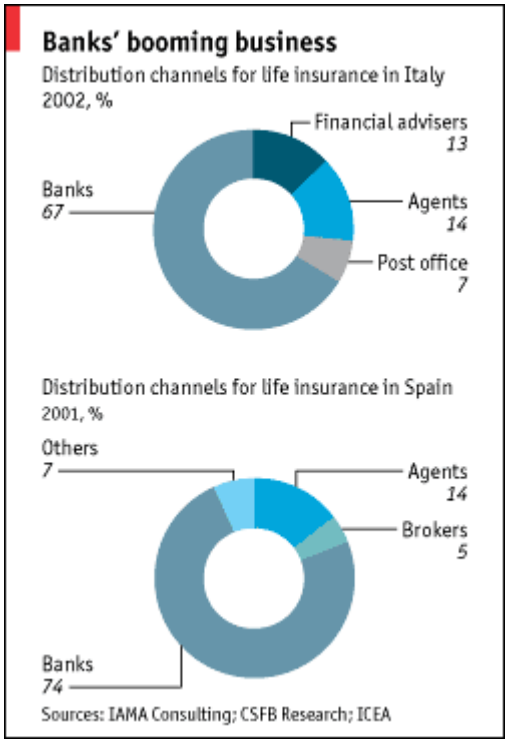
Bancassurance

Success in the south

Jul 24th 2003 | BARCELONA, MADRID AND MILAN
From The Economist print edition

Why banking and insurance work well together, so far, in Italy and Spain



ONLY a few countries seem suited to *bancassurance*, as combinations of banks and insurers are known. It is booming in Italy and Spain, and works well in France and the Benelux countries. But it has never taken off in Britain, Europe's biggest insurance market. It has had little success in Germany, although Allianz, the country's largest insurer, hopes that its purchase of Dresdner Bank in 2001 might yet break the mould. In Switzerland, Credit Suisse has had to pump billions of francs into its insurance subsidiary, Winterthur. Nor has *bancassurance* caught on in the United States, though that is partly because of the country's regulatory history.

In theory, the cross-selling of banking and insurance products ought to bring economies of scale, synergies and higher revenues. Banks bag extra fees from selling insurance through their branches, while insurers benefit from a rise in volume. So why has it worked only in certain places? And why, in particular, in Italy and Spain?

A complete answer is elusive, but the countries in which *bancassurance* has been a success have some traits in common. In Italy, Spain and, to some extent, in France and the Benelux countries, local banks are powerful, labour laws are rigid, there are too many bank branches and insurance products are simple. Outside the Netherlands, private pensions are rare in continental Europe. In Britain and America, private pensions are more developed, clients are better educated about finance, and it is easier to hire and fire.

In Spain and Italy, *bancassurance* has become prominent only in the past decade, as banks have spotted profits in life insurance. Domingo Sugranyes, chief executive of Mapfre, Spain's biggest insurer, says that all his country's top banks long neglected their insurance subsidiaries, but then revived them. Mapfre itself joined forces with Caja Madrid, Spain's second-largest savings bank, in 2000. CaiFor, Mapfre's main competitor in *bancassurance*, was set up in 1992, a joint venture between La Caixa, a Catalan savings bank, and Fortis, a Belgo-Dutch financial group. Other leading banks have strengthened their in-house insurers.

For insurers wanting to get into Spain, the country's powerful local savings banks are the partners of choice. They are controlled by representatives of local government and depositors. In Italy, the equivalent institutions are regional banks controlled by charitable foundations on whose boards sit local politicians. Aviva, a British insurer, has struck five *bancassurance* deals with local savings banks in Spain and four with regional banks in Italy. This week Aviva boosted Commercial Union Vita, its *bancassurance* joint venture in Italy with Unicredito, a top bank, by buying the Italian life-insurance arm of ING, a Dutch financial-services firm.

Your friendly local bank manager

Because of their importance in local communities, banks are proving efficient distribution channels for insurance. They have also been clever at bundling products—eg, a mortgage with household insurance.

“In Spain customers have a lot of confidence in their banks and are more susceptible to buying different products from their banks, while in other countries clients trust brokers,” says Tomás Muniesa Arantegui, chief executive of CaiFor. The same is true of Italy. People do not trust insurance agents, says Davide Serra at Morgan Stanley, but they trust the local bank manager. “One-stop shopping is the natural tendency of the consumer,” believes Edoardo Lombardi at Mediolanum, an Italian financial-services firm.

Partnerships between insurers and banks have been especially successful in life insurance. They account for more than two-thirds of new life business in both Spain and Italy (see chart on previous page). In Italy, the banks' share has tripled since 1995. To reinforce its *bancassurance*, Alleanza Assicurazioni, Italy's leading life insurer, part of the Generali group, and Banca Intesa, one of the biggest banks, last month created Intesa Vita, a new company that brings together all their *bancassurance* activities. Riunione Adriatica di Securità, a subsidiary of Allianz based in Trieste, has alliances with three banks, Unicredito, Monte dei Paschi di Siena and Sanpaolo IMI. Toro, an insurer sold recently by Fiat, a carmaker, to De Agostini, a publishing group, is linked with Capitalia, another bank.

In terms of profits, these partnerships work to the advantage of banks rather than insurers. Banks pocket a good chunk of the fees for selling policies, but insurers do all the underwriting work. But banks have other reasons for pushing into insurance. Maurizio Lualdi of Credit Suisse First Boston believes that rigid labour markets in Spain and Italy, which hardly allow banks to fire or retire employees, and falling margins on traditional banking products, are prodding banks into insurance. If they cannot close a bank branch, at least it can be put to additional use.

At the moment, despite a lack of training in insurance, bank employees do not find it hard to sell policies. This may be because the policies are simple, compared with those on offer in other countries. That will change when Spain and Italy shift more of the burden of pension provision from the state to the private sector. But waiting for pension reform in Italy is like waiting for Godot, says Alberto Maria Maturi, chief executive of Alleanza. Mr Serra of Morgan Stanley is more optimistic, predicting that, thanks to Giulio Tremonti, the finance minister, private pensions will get a boost in the next few years. In Spain no progress on pension reform will be made before next year's elections.

It remains to be seen whether *bancassurance* will still be competitive when the pension market matures in these countries, says Chris Gentle of Deloitte Touche Tohmatsu, a consultancy. It may become harder to compete with specialist life insurers. Maybe it is as well that *bancassurance* ventures in Italy and Spain are partnerships rather than the products of takeovers. Such alliances are easier to undo.

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Trade

Stitched up

Jul 24th 2003 | JOHANNESBURG
From The Economist print edition

African irritation at rich countries' cotton subsidies

THIS September's trade negotiations in Cancun, Mexico, are supposed to be part of a “development round” of world trade talks. What can small, poor countries do to turn rhetoric into reality? Speaking with one voice, recruiting help from western activists and pointing out the faults of rich countries is a good start. This is the strategy of west and central African countries: ministers, experts, producers and activists met on July 20th near Dakar, Senegal, to agree a common position on agriculture, especially cotton.

The world's biggest cotton producers are China, with 25% of the market, followed by the United States (21%) and India (12%). West and central Africa's share is only 5%, but production has risen steadily in the past two decades to more than 1m tonnes a year, and the region now exports one-eighth of the world total. Burkina Faso and Mali rely on cotton for about one-third of their export earnings, and Chad about one-quarter. In several countries, these earnings are worth 5% or more of GDP. Some 10m people in the region make their living from the crop.

Given a chance, they argue, competitive and efficient African producers would undercut and outsell their rivals. A study by a consultant, Louis Goreux, that was cited at the Dakar meeting, says that American cotton costs 50% more to produce than African. So expanding output in Africa should be profitable. Given that the continent's cotton is cultivated labour-intensively by many small farmers in poor countries, it should also cut poverty.

The International Monetary Fund, African officials, growers and negotiators, and international campaigners all say that rich countries and China should cut subsidies to their cotton-farmers. Last year governments around the world gave support for almost three-quarters of all cotton produced, up from half five years ago. Oxfam, a charity, says each acre (0.4 hectares) of American cotton is treated to $230 in subsidies. Last month's proposed reform of the European Union's agricultural policy did not touch the $700m support for Spanish and Greek cotton-growers. Even China dishes out $1.2 billion a year.

Rising subsidies and falling world prices in the past couple of years have made it hard for the Africans, who are mostly unsupported by their governments, to compete. Mr Goreux's study suggests that the subsidies, by exacerbating price falls, cost Africa $250m in export earnings last year. Add in knock-on effects on the economy, grumble African officials, and the loss is more like $1 billion.

Whatever the figures, it is high time that the subsidies stopped. Meanwhile, the African governments would like rich countries to compensate them in cash—and at a punitive rate, to encourage the swift dismantling of support. There is, alas, little chance of that in September.

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Economics focus

Guiding the pack

Jul 24th 2003
From The Economist print edition

Regulators should worry less about individual banks and more about systems

IN THE past 20 years or so, banking crises and financial instability have come around with depressing frequency and at considerable cost. According to estimates by the International Monetary Fund, more than a dozen banking crises in the past 15 years have cost the countries afflicted 10% or more of their GDP. Latin America seems to suffer about once a decade. The miracle economies of East Asia were caught in the late 1990s. Not even rich countries are immune, as the Japanese have come to know only too well.

The blame is often—and rightly—laid on macroeconomic policy: an unsustainable exchange rate, poor budgetary control and so forth. Yet bank regulators, too, should do more to ward off crises in the banking system. If they did their job differently, might financial systems and economies be more stable? In a recent paper* Claudio Borio, an economist at the Bank for International Settlements (BIS), argues that they might. Bank regulation, he says, has two basic components. First, there is what he calls a "microprudential" element. This concentrates on avoiding problems at individual banks, and at protecting depositors when things go wrong. The second, "macroprudential" component is concerned with stopping the banking system as a whole getting into trouble, and thus with limiting the damage to the economy.

Mr Borio thinks that regulation has hitherto focused too much on the micro and too little on the macro. The main way of keeping banks safe is through international rules, known as the Basel accord, that limit their exposure to risk by stipulating that their capital must at least equal a minimum proportion of their assets (weighted by risk). If banks do get into trouble, depositors' money is insured, up to set limits. That not only protects depositors, but should also dissuade them from withdrawing all their money, and perhaps setting off a systemic crisis, when a bank looks like failing.

One reason for shifting to a more macro footing is the huge economic costs of systemic crises. Although deposit insurance can protect people's savings, it cannot insulate them from the possibly far greater costs of widespread financial distress, such as unemployment. A second reason is that deposit insurance might make bank failures and financial distress more likely, by fostering moral hazard. Knowing that their savings are safe in almost any event, depositors are less likely to monitor how wisely bankers use their money. If bankers believe that regulators will not let their institutions collapse, they may not worry enough about the riskiness of their assets.

A third reason stems from the way in which financial crises happen. One common view is that a crisis starts when a single bank collapses. Trouble then spreads to other banks: maybe those that have lent to it are hit, or maybe a general panic takes hold. This fits in well with the microprudential approach to regulation: stop the trouble happening at one bank, and the system as a whole will be safe. But another way that systemic crises start is when a country's banks are exposed to the same common risks. For example, suppose that they have borrowed a lot of dollars, but most of their loans are to local companies, in local currency. If the dollar appreciates, all the banks will be in a similar pickle. If this scenario is closer to reality, regulators ought to worry more about system-wide risks and less about the balance sheets of individual banks. Mr Borio says that all the biggest recent crises, in Latin America, East Asia and Japan, had their origins in common risks, not in trouble spreading from one or a few blighted banks.

Bother Basel

New rules on bank capital, known as Basel 2, are due to come into force in 2007. But there is a risk that,

in one respect at least, Basel 2 will make the system less not more stable. As now, the emphasis will remain on individual banks, not whole systems; and regulators will put more weight on credit ratings in assessing the sturdiness of banks. The trouble is that ratings, along with other measures of the riskiness of banks, such as credit spreads, are cyclical: they look best at the top of a boom, when things are about to turn bad, and worst at the bottom of a slump, when business is about to pick up.

A paper† by Jeffery Amato, another BIS staffer, and Craig Furfine, of the Federal Reserve Bank of Chicago, finds that rating agencies seldom change their assessments of big companies. However, when ratings do change, they go too far, becoming overly optimistic in upswings and overly pessimistic in downturns. The new rules might thus increase the supply of credit during a boom, helping to fuel the fire, and reduce it in a downturn, impeding recovery.

Mr Borio's macroprudential perspective might suggest that capital requirements should be tightened in upswings and eased in downswings. Macroeconomic policy works in much the same way: built-in fiscal stabilisers automatically adjust taxes so that consumer spending is dampened in booms and encouraged in recessions. Yet a more macroprudential method of regulation is easier to ask for than to deliver, although Mr Borio offers some ideas. He would like to see an explicit distinction between system-wide risks and those peculiar to individual banks. It might also be worth assessing risk over a longer period than just one year, now the standard practice, or raising some banks' capital requirements if their size means that they make a disproportionate marginal contribution to system-wide risk. Steps in this direction might not stop banking crises, but they could help.

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* "Towards a Macroprudential Framework for Financial Supervision and Regulation", BIS Working Papers, no. 128, February 2003

† "Are Credit Ratings Procyclical?", BIS Working Papers, no. 129, February 2003

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Earth observation

Flying blind

Jul 24th 2003 | NEW YORK
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Why global voyeurs will come together in Washington next week

"WHAT matters gets measured" is a maxim familiar to most scientists. It suggests, in turn, that the global environment does not matter. Governments, though concerned about their own patches of the planet, care little about other people's. Although satellites peer down on Earth to monitor parts of its atmosphere, oceans, forests and deserts, and although fixed weather stations and nomadic buoys and balloons provide accurate readings from individual spots, nobody is responsible for joining up the dots to reveal the bigger picture.

Where people do not live, the situation is even worse. The ocean's interaction with the atmosphere is critical to understanding how the climate works—but the vast oceans of the southern hemisphere where much of it takes place are woefully understudied. Even so basic a question as whether the sea level is rising cannot be answered properly. There is good reason to think that it is (in part, at least, due to global warming) but there are not enough monitoring stations to be sure.

Perhaps to the surprise of its critics, one government—America's—wants to change this. On July 31st the United States will host a conference in Washington, DC, devoted to the theme of global observation. Its purpose is to try to convert other countries around the world to the idea of collecting, analysing and sharing environmental data in a coherent fashion. Conrad Lautenbacher, a retired admiral who is head of America's National Oceanic and Atmospheric Administration (NOAA), and the moving spirit behind the conference, declares that this is the "first-ever political summit on earth observation". He says that more than two dozen countries plan to send high-level emissaries.

Seeing green

If this actually happens, it will be a significant step forward. The reason is that the biggest obstacle to proper monitoring of the Earth is neither technology—all sorts of fancy satellite and ground-based observation techniques are now available—nor money. It is politics. The oceans aside, the biggest gaps in the global-observation process involve poor countries. And this has frequently been a sin of commission, not omission. For many years, developing countries were suspicious of efforts by the rich world to observe, say, deforestation patterns in tropical forests. Apart from the embarrassment involved, they

suspected that the rich would somehow use such data to exploit the natural resources of the poor. Some countries, such as Brazil, China and India, have sent up their own satellites, to control the data flow themselves. Others preferred to ignore the problem.

Looking outside your borders helps, though. Proponents of co-operation point to the system of buoys and monitoring stations set up in the Pacific in recent years to keep track of El Niño, an intermittent ocean current. In 1982 and 1983, the economies of many countries on the eastern shores of the Pacific were hit hard by the disruptive weather connected with this phenomenon. But when it struck again in 1997 and 1998, early warnings from the new monitoring system helped farmers and emergency crews to prepare.

California, NOAA reckons, endured $1.1 billion less damage in 1997-98 than it would otherwise have done, thanks to the warning it got of El Niño. The rest of America saves $200m-300m a year courtesy of similar, smaller-scale warnings. Next week's conference is meant to build on this sort of experience by linking different countries' national and regional monitoring systems together, and also by integrating different sorts of data (for example, on weather and plant cover).

That will not be as easy as it sounds. Even if the political will is there, there are technical issues to be overcome as the different data-collection efforts are not always compatible. Here, the experience of the private sector may help. Integrating disparate geographical databases, albeit on a smaller scale than Admiral Lautenbacher is envisaging, has been something of a boom industry recently.

Earlier this month, for example, some 11,000 people attended a conference in San Diego run by ESRI, the biggest “geographic information systems” (GIS) software firm in the world. GIS, the systematic handling and integration of geographical databases and digitised maps, is being stimulated by the development of common standards of the sort that Admiral Lautenbacher will need.

To promote this idea, several dozen companies, government agencies and universities have banded together into the Open GIS Consortium (OGC), a group devoted to an “open source, plug-and-play” approach to GIS. Mark Reichardt, one of the OGC's directors, likens the consortium's aim to that of the Linux operating system, and suggests that the day is not far off when existing, disjointed databases (of health statistics or poverty in a region, for example) could be overlaid routinely on to, say, maps of the sites of waste tips or chemical plants. Military men and aid workers in Iraq are already using such technology. Larger-scale versions should help with Admiral Lautenbacher's plans.

Whether any new science—or indeed anything new at all—will be unveiled at the conference remains to be seen. By the time it happens, though, the Bush administration is expected to have announced its revised plan on climate-change research (it had not done so when this article went to press). An earlier draft of the plan was criticised by America's National Academy of Sciences for casting needless doubt on things that most scientists already agree are true about global warming. A conference about how little is actually known about the Earth might make an interesting counterpoint to such criticisms.

But maybe that is too cynical. For the fact remains that this apparently most un-green of administrations (at least in the eyes of environmentalists) is about to bring together heavyweight policymakers from many countries to forge a coherent international strategy for Earth observation for the very first time. The planet may at last get the chance to be measured in full. And that, surely, is good news for greens and greenery everywhere.

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Smell, vision and genes

More colour, less odour

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Gaining colour vision, it seems, cost people much of their sense of smell

THERE is a theory that the human sense of smell began to atrophy when people learned to cook. Since cooking neutralised the worst toxins in food, it became less important to be able to sniff out evil-smelling ingredients. But at the International Congress of Genetics, held earlier this month in Melbourne, Australia, a group of researchers presented evidence that it was actually the evolution of colour vision that caused creeping desensitisation to odours.

People detect smells when particular molecules lock on to receptor proteins embedded in the lining of the nose. The interaction between a molecule and a receptor triggers a pulse of electrical activity that is transmitted to the brain.

Most odoriferous molecules activate more than one type of receptor. The brain recognises an odour by the pattern of receptors activated. Humans have about 1,000 different sorts of odour receptor (OR), so the number of patterns that can be generated and recognised is impressive. Even so, the range and subtlety of the human sense of smell is poor compared with that of other mammals, and it has been found over the past few years that this poverty is a reflection of genetics. The genes that encode ORs form the largest of the mammalian gene families. Yet in humans 60% of them are actually so-called pseudo-genes. In other words they have been rendered inactive by mutations.

To find out if humans are unusual among primates in having lost such a high proportion of their ORs, a team of researchers led by Yoav Gilad of the Weizmann Institute, in Israel, picked 50 human OR genes at random. The team then found their counterparts in several species of primate, and also in the mouse, and compared the ratio of pseudogenes with intact, functional genes across the species.

In the mouse, around 20% turned out to be pseudogenes, whereas in chimpanzees, gorillas and orang-utans the level was closer to 30%. Old-world monkeys had lost more genes than new-world monkeys, which in turn had lost substantially more than the mouse. And humans were way out in front with a massive 60% erosion of ORs. According to Dr Gilad, humans have accumulated disruptive mutations in OR genes four times faster than any of the other species tested.

Moreover, the distinction between new world and old world was so clear that, as Dr Gilad says, “It's almost as if we can map the beginning of the accelerated rate of accumulating OR pseudogenes from their divergence.” But there was an anomaly. When the researchers plotted their findings on a graph, they found that the howler monkey, a new-world species, fell in with its old-world cousins.

Why would this sudden increase in OR loss have occurred both in the old-world and in one lineage of new-world primates? The researchers were struck by the fact that howler monkeys, alone among new-world species, share with old-world primates the capacity for full colour, or “trichromatic” vision.

Trichromatic vision involves three pigments, called opsins, that are sensitive to different wavelengths of light. In humans and their old-world relatives the medium- and long-wave opsins are controlled by separate genes on the X chromosome. But in most new-world monkeys there is only one opsin gene on the X chromosome.

Confusingly, this gene can exist in two forms, which produce opsins sensitive to different wavelengths. So trichromacy can occur in these animals. But it can only happen in females, who have two X chromosomes, one inherited from each parent. If these carry different forms of the gene, a female's eyes will be equipped with all three pigments. Males, who have only one X chromosome, always lack a third pigment. So do those females whose X chromosomes carry identical opsin genes.

The researchers believe that the emergence of separate opsin genes on the X chromosome—and hence full colour vision—is probably connected with the shrinkage of the OR family. The better you can see, the less you need to smell. Since senses are costly to maintain, natural selection will eliminate redundant ones. Most mammals communicate by scent. Old-world primates, though, are big on visual communication, with coloured faces and (in the case of females) coloured sexual swellings. And people have gone a step further, creating a range of colourful signals with the clothes they wear. Whether the additional communication provided by language is another such selective pressure remains to be seen.

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Anarchic bees

An alien idea

Jul 24th 2003 | MELBOURNE
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An explanation of anarchy in bees

BEE hives are proverbial models of order. But occasionally they buzz off course, as Ben Oldroyd of Sydney University explained to the International Congress of Genetics in Melbourne.

The normal arrangement in a hive is for the queen to do the reproducing, and the workers to do the working. In 1994, however, Dr Oldroyd read about a colony in New Zealand in which this system had broken down and workers had produced their own offspring. He has now bred his own line of anarchist bees from that colony, and is attempting to find a genetic explanation for their behaviour.

Normally, the queen and her larvae put out chemical signals telling the workers to switch off their ovaries. Dr Oldroyd guesses that these act by altering the production of a critical protein. To find out which protein, he extracted messenger RNA from the ovaries of both anarchists and normal workers. Messenger RNA is the template for protein synthesis that is generated from DNA. By analysing it he could determine which genes were active in the bees' ovaries.

His preliminary results show high levels of expression of a gene called *Alien* in the sterile workers, and low levels in the anarchists. *Alien* is known to play a role in the reproduction of some other insects, and it is also expressed at high levels in non-laying queens. Dr Oldroyd thinks its role may be to turn off reproduction—and hence to promote order in a healthy colony.

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Lymphatic filariasis

The end of the elephant man

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Inexpensive drugs and goodwill are tackling one of Africa's problems

LYMPHATIC filariasis (LF) is a disease that causes the limb deformity known as elephantiasis. But it is easily preventable. A mosquito net stops the insects that transmit it from biting. An annual dose of two cheap drugs clears any parasites that might have got through that defence.

Since 2000 Mafia, an island near Zanzibar, has been a testing-ground for a joint effort by Tanzania's government, the World Health Organisation (WHO) and a pair of drug companies to eradicate LF. A study carried out in 2000 showed that more than half of Mafia's people are infected. The WHO wants to eliminate the disease all over the world by 2020, and Mafia is a good place to start. The drug companies—Merck and GlaxoSmithKline—can easily afford to give away enough of the two drugs needed (Mectizan and albendazole) to fight LF across Africa. Tanzania's government supplies health workers and some organisation. Mafia's three doctors are helped by a team of nurses.

The main trouble is persuading poorly educated farmers that the drugs are safe and useful. Some women fear a government plot to lower their fertility. Men worry about their libidos. In 2001 many of the island's cows died after a government vet tried to treat a sickness. Suspicious islanders thought it was deliberate, and their compliance with anti-LF drugs has dropped from 80% in 2000 to 64% last year. Unless that rate rises again, it will be hard to wipe the disease from the island within the planned five years. But if the project succeeds here, and in ten other test districts, 12m Tanzanians who live in infected areas could eventually be covered—and one of the country's scourges might be on the way to being eliminated.

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Blood clotting

Cut and dried

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A new, cheap blood-clotting agent will soon be commercially available

UNCONTROLLED bleeding is the main cause of death of wounded soldiers—accounting for roughly half such fatalities. Until recently, the treatment for bleeding was surprisingly primitive. A medic would slap on a cotton-gauze bandage while compressing the wound. This is a chancy procedure at the best of times, but particularly trying in the face of enemy fire.

Over the past few years, America's Department of Defence has been funding research into other ways of controlling bleeding. One invention appears to be on the verge of paying off. This is a clot-promoting powder called QuikClot, which has been developed by Z-Medica, a firm based in Newington, Connecticut. The powder saw action during the recent war in Iraq. Because of its success and cheapness (a 100g packet, good for one application in the field, costs $22), a dose of it is now in every marine's first-aid kit.

QuikClot is a zeolite—a substance whose molecular structure is full of holes. When faced with blood, this holey structure acts as a combination of sponge and sieve. The sponge sucks in water molecules, which are small and can fit in the zeolite's cavities. That dries the wound. The sieve excludes larger, clot-forming components of blood, such as platelets and clot-promoting proteins, concentrating them and making them more effective. The result is that, when QuikClot is poured on to wounds, it stems even severe arterial bleeding. The only disadvantage is that the reactions involved can generate so much heat that they damage tissue.

That hardly matters to a man bleeding to death from a gunshot wound, but it might lead wimpy civilians to go running to their lawyers. So the retail version of QuikClot that Z-Medica is planning to release in September will not involve the full 100g application. It should be good enough for shaving nicks, though.

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New American fiction

Fireball fallout

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From The Economist print edition

After nearly 60 years, the first weapon of mass destruction still exerts an inexorable pull on novelists, playwrights and politicians

IN TWO recent works—“America's Children”, a meticulous novelisation of the life of Robert Oppenheimer , and “Copenhagen”, an award-winning play about Werner Heisenberg—James Thackara and Michael Frayn both examined the birth of the nuclear era from the perspective of the scientists who helped to bring it about. Marianne Wiggins elects, instead, in her seventh novel, “Evidence of Things Unseen”, to address physics's dubious gifts to mankind from the viewpoint of more peripheral figures. Her protagonist is both a fan of science and its victim.

Evidence of Things Unseen
By Marianne Wiggins

Simon & Schuster; 400 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Born in Kitty Hawk, where the Wright brothers first rose towards the sun, Ray Foster—or “Fos”, as if short for “phosphorescence”—is fascinated by radiance. A portrait photographer who deals with the dynamics of light, Fos is also a classic specimen from “an age of hobbyists—of passionate, though part-time, scientists.” His hero is Madame Curie. He keeps a lump of phosphorus glowing in a fish tank by his bedside, and an X-ray machine in his truck to help impress girls and to raise extra cash at county fairs. Yet having been employed during the first world war to light the trenches with volatile magnesium, Fos should have noted that men who are drawn to flame can get their fingers burnt.

Fos's wife “Opal” and his swaggering business partner “Flash” replicate his nomenclatural luminescence. Indeed, Fos first views his wife-to-be through the glowing bulb at the end of her father's glassblowing rod. But Opal herself is by nature more earth than fire, better at fixing pick-up engines than at manipulating things unseen. The lady's man Flash, too, is undone by a fleshy bit of 14-year-old jailbait. When the girl bleeds to death from a botched abortion, Flash is put away for life, and one light of Fos's life is snuffed out.

If there is an innocence about Fos's entrancement with all that glitters, there is also something dark. After signing on as an official photographer for the Tennessee Valley Authority—hence becoming complicit in kicking countless farmers off their ancestral lands to make way for hydroelectric dams—Fos assumes a similar record-keeping role at the Oak Ridge Laboratory in Tennessee, one of three research

sites for the Manhattan project. It's in Oak Ridge that Opal's hair starts falling out in clumps on her pillow. Yet while the army scours the lab for a radiation leak to explain Opal's galloping leukaemia, Ms Wiggins twists the knife: lo, Opal has been contaminated not by research on the atom bomb, but by the countless X-rays she helped her husband to demonstrate at county fairs.

“Evidence of Things Unseen” delivers no simple lesson about the moral yin and yang of scientific discovery, but the novel does wrest poignancy from the contradictions of progress—X-rays having saved more lives than they have taken. Like their very names, Ms Wiggins's characters never quite dispel a whiff of contrivance. But she has a fine descriptive flair, and an ear for pith: “He wore that expression Fos had come to recognise in certain kinds of people of an iron reserve who never cry. They end up looking like they've cried too much.” And for this author, even marriage is “a scientific experiment, one of those where you set out to prove something that's already patently obvious.”

The only dogma that Ms Wiggins imparts to her material is atmospheric. She evokes the universe in which we carelessly frolic as an unknowable, shadowy place where invisible terrors are likely to pop up when we least expect them like grinning skeletons in a fairground tunnel-of-love. Hence our discoveries are perilously partial, their full consequences for the future hazy at best. Even “man's standing ovation, the human spine, like the horizon line on the Atlantic, bows, ever so slightly, under influence of things unseen.”

If the likes of Messrs Thackara and Frayn have helped to illuminate the nuclear drama by spotlighting its main actors, Ms Wiggins has also done a literary service in throwing her beam on the bit players. Most western consumers are amateur enthusiasts like Fos, eagerly grabbing the latest miracle off the shelf. Who knows at such a near juncture which magic might turn out to be black? Perhaps in novels 50 years from now, similarly naive characters will reach for some seemingly harmless innovation of our time—the cell phone, pest-resistant seed—and give rise to the same reader's groan that greets Fos as he X-rays his beloved one more time: “Don't do it! Don't do it!”

Evidence of Things Unseen.
By Marianne Wiggins.
Simon & Schuster; 400 pages; $25

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About sponsorship

Men and women

Together and apart

Jul 24th 2003
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“HISTORY is hopeless on love,” says Marcus Collins, and then proceeds to prove himself wrong, in this subtle and persuasive account of relationships between men and women from the 19th century through to the new millennium. He charts the rise of what he dubs “mutuality”: the idea that an intimate equality should be established between men and women through mixing of the sexes, companionate marriage and shared sexual pleasure. Like all utopian ideals, this turned out to be more complicated to sustain than its early proponents imagined.

Modern Love: An Intimate History of Men and Women in Twentieth-Century Britain
By Marcus Collins

Atlantic Books; 294 pages; £19.99

Buy it at
Amazon.co.uk

At first, there was much scope for change. The mainstream Victorian view of the right balance between men and women was essentially one of separate spheres. As John Ruskin, great art guru of the late Victorians, saw it, “Each has what the other has not.” Complementarity did not imply equality, of course. But as the clamour for female emancipation grew, it shook what happened in the home, as well as in politics.

Right up to the middle of the 20th century, something of the separate spheres persisted. In a fascinating chapter on youth clubs (“holding pens for adolescents”), Mr Collins describes how boys' clubs flourished in the first half of the century on the view that boys needed separate recreations to develop manly qualities. Then, with the second world war, came mixed youth clubs to which, by the late 1960s, more than two-thirds of young people belonged. Single-sex clubs rapidly declined. But egalitarian did not mean equal: in mixed clubs, boys tended to charge about the place, keeping the girls out of the billiards room and hiding the table-tennis balls. Girls liked dancing; boys found it boring. Mixing took place, but on unequal terms.

Outside the clubs, mutuality reached its zenith in the century's third quarter, argues Mr Collins. Marriage became near universal; women began to go out to work and so had less time for social life with other women; and the arrival of television kept everyone at home in the evenings. But then a new wave of feminism attacked this cosy domesticity as a trap for women. Women learned independence in the job market; the arrival of the Pill ended the double sexual standard for men and women; and the rise of divorce deprived mutuality of its bedrock, the companionate marriage.

This book's main disappointment is its purely British focus: each trend Mr Collins spots has echoes elsewhere, and many were most obvious in America. But its sweep is impressive, even if its detail on the twists of contemporary thought give rise to footnotes that take up more than a quarter of the pages.

So what is left, given that society now takes for granted the rights of women, the end of sexual repression and the mixing of the sexes in all sorts of organisation from school to the workplace? Mr Collins is glum: by the millennium, men and women were “alone together” as individualism triumphed over togetherness. Yet this is too despondent. The astonishing thing is that marriage and the family have survived the earthquakes of the past century, and that this most intimate of human relationships has changed as much as it has, and largely for the better.

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By Marcus Collins.
Atlantic Books; 294 pages; £19.99

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About sponsorship

War memoirs

Blood and guts

Jul 24th 2003
From The Economist print edition

TURNING out concise, clichéd paragraphs, with little originality but at high speed, is a talent that is greatly prized by the international news agencies—along with a stomach for filthy coffee and the ability to work around the clock. Nothing will kill off a natural writing gift quite so well as a thorough news-agency training.

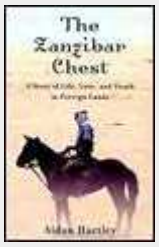
So it is astonishing that Aidan Hartley, a Kenya-born reporter who spent nearly six years working for Reuters, should have escaped the agency ruin and brought forth such a lyrical, passionate memoir of his dark continent as “The Zanzibar Chest”.

On the surface, Mr Hartley's book professes to explore why his father and so many other Englishmen of his generation turned time and again to Africa. Its real aim is far more ambitious: to explore the motives of many generations of white people—good and bad, but mostly confused—who have washed up on Africa's wilder shores of love.

Mr Hartley's judgment of the foreign politicians who have involved themselves in the continent—those who ordered the American invasion of Somalia and the others who later oversaw the UN's subsequent rickety peacekeeping efforts there—is tough without being hysterical. And he has a sure pen for character, particularly in describing his father's friend, an honourable Englishman who married an Arabian beauty and divorced her to set her free, and Dan Eldon (pictured above), the slim American photographer who was stoned to death exactly a decade ago by a rampaging mob in Mogadishu just moments after an American raid on the city.

In the midst of the carnage, though, what Mr Hartley writes about best are the dichotomies within himself—his ache for Africa, his rage at its horrors, his longing for the peace of making love under the stars and his inability to give up the war-zone drum roll of gunshot and heartbeat that convinces you tomorrow may never come.

The Zanzibar Chest: A Story of Life, Love, and Death in Foreign Lands
By Aidan Hartley



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About sponsorship

Foreign broadcasting

Telling it straight

Jul 24th 2003
From The Economist print edition

FOR those wondering why, in the presence of global commercial news networks, there is still a need for the Voice of America (VoA), here is a short answer: “CNN can be seen in hotel lobbies; VoA can be heard in refugee camps.” So says David Burke, the founding chairman of the American Broadcasting Board of Governors. And if this does not suffice, then Alan Heil's comprehensive history of America's largest publicly funded overseas broadcasting network surely provides a most comprehensive answer.

Mr Heil worked for “America's town crier to the world” for more than 35 years. Created shortly after the attack on Pearl Harbour, VOA mutated from a propaganda boutique relayed through the BBC into a well-respected multimedia operation, heard in over 50 languages by more than 90m people—except, ironically, in the United States.

It has not been easy. Again and again, VoA has had to fight to maintain editorial balance, especially in times of crisis. The network's history is replete with budget cuts and reorganisations which more than once threatened its very existence. Yet the September 11th attacks highlighted the importance of foreign broadcasting as an instrument of “soft power”.

Voice of America: A History
By Alan L. Heil Jr

Columbia University Press; 538 pages; $37.50 and £26

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Meanwhile, in areas of the world where freedom of the press is a distant dream, VoA has touched the lives of millions of people. From the crises in eastern Europe to the student uprising in Tiananmen Square, Mr Heil provides countless examples of people clinging to their shortwave radios to listen to VoA and other international broadcasters, in spite of intense jamming, to know what was really going on in their own countries. A few years after the creation of the Tibetan service, a National Geographic Television crew recorded chants in the kitchen of a Buddhist monastery. Once back in Washington, they discovered that the lyrics were actually: “This is Voice of America in Tibetan, coming to you from Washington.”

Mr Heil uses some colourful anecdotes to recount the VoA story. But his is not always an easy read. Readers fascinated by the technical intricacies of radio and the arcana of Washington's broadcasting policies will no doubt be riveted. Others may feel that the book reads a little too much like an internal corporate memo.

Voice of America: A History.
By Alan L. Heil, Jr.
Columbia University Press; 538 pages; $37.50 and £26

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Josef Stalin

Blood on the tracks

Jul 24th 2003
From The Economist print edition

AS WITH Stalin himself, it is hard to remember sometimes that the monstrous, ruthless, terrified, sycophantic, debauched, idealistic, deluded people around him were human beings. Simon Sebag Montefiore's book, based on a thorough synthesis of existing works, archival material, and his own interviews with survivors and their descendants, provides a richly detailed reminder.

His account does give one a start. It is much easier to read ghastly accounts of Beria's debauchery, or Stalin's paranoia, than anecdotes about children scampering happily through their parents' Kremlin offices, or of Stalin's punctilious habits in his personal correspondence, his bizarre flashes of kindness and decency or his extraordinary appetite for books. But Mr Sebag Montefiore's book is all the more valuable for the surprises it presents. As the author himself points out, demonology is no substitute for history.

What also jars, to less effect, though, is when the author's effortless prose turns facile. A good editor might have advised against over-use of words like “pinguid”, avoided the use of nicknames for the main characters, pruned some sloppy repetition of details and tidied up the Russian transliterations.

Scholars disagree still over whether Stalin was born bad or whether he was simply corrupted by power, and many continue to ask themselves what he might have done next. Mr Sebag Montefiore's book offers a convincing argument that shows that Stalin's manners, and much else besides, grew worse as he got older. Despite the terror which was used against the Russian people, in the 1920s the inner dealings of the Bolshevik elite were still collegial. Stalin then was a first among equals, dominating his powerful colleagues by charm and persuasion.

In the 1930s, as the supply of external enemies ran dry, the Soviet regime turned the terror inwards, in tighter and tighter circles. Even at the top, intimacy gave way to fear. For a few years after the disastrous outbreak of war, Stalin backtracked. For all their political reliability, he realised, cronies could not win battles the way that generals could. The post-war years brought ever more terror, and ever more sycophancy—but also a physical and mental decline that set his subordinates thinking about what might follow.

This, like many other chapters in Mr Sebag Montefiore's racy narrative, is worth a separate book of its own. Jonathan Brent, a distinguished American specialist in Soviet archives, and Vladimir Naumov, one of modern Russia's best historians, provide an unparalleled account of one such episode: the famous doctors' plot of January 1953, in which a vast conspiracy of Jewish doctors is meant to have planned to murder the Kremlin leaders. In reaction, Russia seemed to wobble for a while towards its own final solution.

Although the outlines of this piece of history are clear, the details are devilishly difficult to pin down. Stalin was certainly anti-Semitic by instinct. The foundation of the state of Israel gave him reason to doubt the loyalty of even the most zealous Jewish communists. And by 1953 he needed a new enemy, having killed so many of the old ones. Russia's Jews, starting with a group of unfortunate doctors, provided a tempting target.

But so much was also invented, so much disguised. Stalin died less than two months after he

Stalin: The Court of the Red Tsar
By Simon Sebag Montefiore

Weidenfeld & Nicolson; 693 pages; £25

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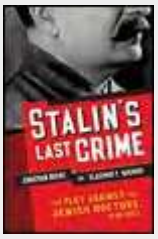
Stalin's Last Crime: The Plot Against the Jewish Doctors, 1948-1953
By Jonathan Brent and Vladimir P. Naumov



HarperCollins; 416 pages; $26.95. John Murray; £20

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dramatically pointed his finger at the doctors. The authors have managed, with commendable scholarship, to trace the origins of the so-called plot. But they cannot prove, as some conspiracy-minded scholars insist, that Stalin died of anything but natural causes. Meanwhile, in Russia, there is still a dreadful nostalgia for his rule.

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Art criticism

Look to learn

Jul 24th 2003
From The Economist print edition

Too much of a good thing

RICHARD CORK, a London critic, has watched the art scene for more than 30 years. Few are better placed as guides to its achievements and provocations. Fewer still have shown his assiduity at keeping up with the variety and sheer quantity of new art. Both of these grew hugely during his watch for the *Evening Standard*, the *Listener* and the *Times*. A thoughtful glance backwards from a hard-working eye is a chance not to miss. How have art, the public and the job of the critic changed?

There is much to be said in answer to this question, and Mr Cork could say it. But is republishing close on 2,000 pages of briefish newspaper reviews necessarily the best way?

To give shape to the enterprise, Mr Cork has gathered his pieces into four chronological volumes and also into three main groups: newcomers, established artists and art institutions. The focus is on Britain, but artists from elsewhere figure too.

As a talent spotter in the 1970s, Mr Cork saw and recommended widely. There were not many rising stars he missed, though naturally he picked a few duds as well. Was he too lenient? In defence, Mr Cork can reply that, when standing up for innovation and adventure, inclusiveness is best. He especially welcomed new British sculptors and the spread of what has come to be known as site-specific art beyond the gallery.

For artists—mainly painters—with a recognised body of work behind them he is rarely without an apt, generous word. He celebrates Frank Auerbach's eye, Francis Bacon's exuberance, Philip Guston's persistence, R.B. Kitaj's poetry. Not that Mr Cork cannot scold. He dislikes L.S. Lowry's “Elysian fabrication of the North” and he disapproves of Euan Uglow's “icy objectivity” towards his models.

Mostly Mr Cork keeps his critical ire for philistine readers, though the complaints diminish as the edgy art of the 1970s and early 1980s later becomes mainstream. How outsiders become insiders is—or ought to be—a theme also in his knowledgeable pieces about Britain's burst of gallery-building in the late 1980s and 1990s. To take only the two most obvious examples, Sir Nicholas Serota, a former young Turk, presides at the new Tate, Britain's most popular gallery, and Charles Saatchi's once shocking collection of Brit art is on display in museum-space that he colonised in London's staid old County Hall upriver.

Reuters

Once you take the citadel, though, you are no longer an insurgent. What does Mr Cork think of these developments and what they say about changes in British public taste? Even from the last two volumes in this series, it is hard to tell. What critical standards should a champion of new art adopt now that

Everything Seemed Possible: Art in the 1970s
By Richard Cork

Yale University Press; 482 pages; $20 and £12.95

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New Spirit, New Sculpture, New Money: Art in the 1980s
By Richard Cork

Yale University Press; 493 pages; $20 and £12.95

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Breaking Down the Barriers: Art in the 1990s
By Richard Cork

Yale University Press; 643 pages; $20 and £12.95

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Annus Mirabilis?: Art in the Year 2000
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almost all art students learn to be “innovative” and “adventurous”?

Puffed Daddy

“The Critic's Role”, an article he wrote in April 1999, sheds little light. This is a pity. Mr Cork has written expertly on British art in the early 20th century, with monographs on David Bomberg (1985) and Jacob Epstein (1999) among others. He helped organise a powerful show about art and the first world war and gave the Slade lectures at Cambridge University on this topic, which were published in 1994 under the title “A Bitter Truth”. In his reviews, as well as on countless committees, Mr Cork has done as much as anyone for the cause of contemporary art. Having published 2,000 pages or so of the raw material, perhaps Yale University Press should now ask him for a summing up.

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Cheese

The whey of life

Jul 24th 2003
From The Economist print edition

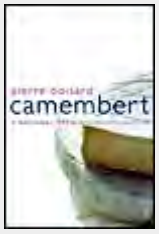
FRANCE'S most famous foodstuff received its wittiest compliment in Cole Porter's song “You're the Top”:

> You're the nimble tread of the feet of Fred Astaire
> You're an O'Neill drama
> You're Whistler's mama
> You're Camembert.

That criminally delectable cheese is said to be the invention of a milkmaid named Marie Harel who lived in the Normandy village of Camembert. In 1791, with the help of a recusant priest from Brie, she produced the first Camembert by combining the recipe for Livarot, a local cheese, with the process of ladle-moulding used to make Brie. Thus, the story goes, the birth of the French Republic neatly coincided with the birth of a national symbol.

Alas, the story is false. The priest was plucked out of thin air; Marie Harel was not living in the village of Camembert in 1791; and a cheese of the same name had been produced there for at least 80 years. (Thomas Corneille, the brother of Pierre, mentioned it in his geographical dictionary of 1708).

Camembert: A National Myth
By Pierre Boisard. Translated by Richard Miller



University of California Press; 254 pages; $29.95 and £19.95

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Nevertheless, the tale of the travelling priest and the experimental milkmaid stuck. Pierre Boisard, a French academic, reckons the persistence of this national myth, as he calls it, has to do with the way it brings together elements of tradition and modernity, *ancien-régime* know-how and revolutionary innovation. He sees the history of Camembert as a mirror which reflects many of the more general developments in French history, particularly the shift from a rural to an industrial economy and from manual to mechanised methods of production.

Much of this makes for entertaining reading. But there is a distinctly overripe whiff to Mr Boisard's prose, as when he suggests that “Camembert, a living substance produced by an animal organism, constantly reminds us of the body, of sensual pleasure, of sexual fulfilment, and of all that is forbidden in it.” And something, surely, seems to have been lost in the translation when he urges his readers to “enjoy a brief and delicious moment of transgression with a piece of Camembert.”

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About sponsorship

Uday and Qusay Saddam Hussein

Jul 24th 2003
From The Economist print edition

Getty

Uday Saddam Hussein (left), aged 39, and his brother Qusay, 37, died on July 22nd

Get article background

WHEN Saddam Hussein became president of Iraq in 1979, his elder son Uday was 15 and his second son Qusay was 13. According to Uday, the two boys were ordered by their father to watch the execution of several dozen government officials accused of being disloyal to the regime. Uday said that he killed a number of the officials himself. If the father is eventually captured and survives to reminisce about his past life, as sometimes happens even to dictators, he may explain why he exposed his sons to this dreadful sight. But, lacking that personal account, it is reasonable to speculate that he wanted to blood them. This was the reality of life in Iraq from now on, he was saying. By tooth and claw, the father had gained power, and all the advantages that went with it, and to hold on to it there should be no room for sentiment. Of the dictators who abounded in the 20th century, the one Mr Hussein most admired was Stalin, who was totally ruthless, achieved a kind of divine status and died in his own bed.

Until their father became president the boys had had a reasonably sheltered life. Mr Hussein had been a member of the military junta that had taken power in Iraq in 1968. One of his perks was a spacious house in the grounds of the presidential palace. It had a swimming pool and there was a large staff to care for the boys and their three sisters. Sometimes the family would visit a local club where members could play tennis or go horse-riding. There were holidays by the sea. Photographs taken in the 1960s show what appears to be a contented family fussed over by Mr Hussein and his first wife Sajida.

Uday and Qusay attended a Baghdad school where Sajida had once taught. Uday was reported to be good at science subjects and he said his ambition was to study physics in the United States. However neither son appears to have had much higher education. It may be that their father thought it better to keep them at home, tutoring them about how a dictatorship should be run, rather than letting them cut free, perhaps picking up silly ideas about democracy. His sons were the country's future.

Spoilt rich kids

As Uday and Qusay grew out of adolescence and into their 20s, stories began to circulate about their wild behaviour. Uday particularly was said to be reckless with fast cars and to maintain a circle of willing girls. Such behaviour is common enough among spoilt rich kids in respectable countries, but in the case of the Hussein brothers it was associated with stories of violence. Uday was said to have supervised the torture of prisoners. Qusay gained a reputation for brutality as a member, and later head of, the country's

security services.

It has to be said that those dark reputations were largely based on hearsay. In a state controlled by fear, it was difficult to find reliable witnesses. However, in 1988 a gruesome incident involving Uday, then 24, took place in the most public of venues: at a party for Suzanne Mubarak, the wife of the Egyptian president, designed to be part of diplomatic moves by Iraq to thank Arab governments for their support in its costly war with Iran. As soon as Uday arrived at the party he sought out a servant of his father called Jajo and repeatedly beat him to the floor with a club. Jajo died later in hospital.

As the story circulated not only in Iraq but in newspapers abroad Mr Hussein said Uday had to stand trial for murder. Uday said he had lost his temper because he believed that Jajo was upsetting his mother. The murder charge was dropped and he was sent to Switzerland to cool off. The Swiss sent him back after he threatened to knife someone in a restaurant.

It was clear to Mr Hussein that Uday, who had been linked to earlier murders, was unstable. It may be that his mental defect had existed for years, perhaps aggravated by the experience of watching executions when he was 15. Mr Mubarak, who had received a graphic account of the assault on Jajo from his wife, said Uday was a psychopath, a view held by many Iraqis. From then on he ceased to be regarded as Mr Hussein's successor. Qusay was now the crown prince. New qualities were discovered in him by the spin doctors of the Hussein regime. He was quiet and thoughtful. His idea of a good time was to spend an evening with his family, or perhaps studying Iraqi history. Uday's stock fell further when in 1996 he was nearly assassinated, and afterwards walked with a limp. Iraq did not want unpopular leaders, it was said, although Qusay also survived an attempt to kill him.

The reality was that both brothers were given a series of important jobs running the country for which they were not qualified. Qusay not only headed the security and intelligence services, he was given control of the army. Uday, even when he declined in favour, for a time controlled the state media and national sport, stupidly punishing athletes who did not win prizes. It is perhaps worth observing that Saddam Hussein's hero Stalin was not influenced by relationships when making appointments. He disowned his son when he was captured by the Germans in the second world war. His daughter defected to the West. Perhaps Mr Hussein did not study Stalinism enough.

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Overview

Jul 24th 2003
From The Economist print edition

According to the EuroCOIN indicator, a real-time measure of **euro-area growth** published by Britain's Centre for Economic Policy Research, the euro area's economy perked up in June. The indicator rose to 0.62, a rise of 0.13 over the past 12 months. This now reflects a growth rate above the average between 1987 and 2003 and it may, says the CEPR, signal an end to the recent sluggishness in Europe.

Euro-area trade and industrial production figures are, however, less optimistic. The region's trade surplus shrank by $480m to $4.3 billion in May. Industrial production fell by 0.9% in May, and by 1.3% in the 12 months to May. The strength of the euro and weakness in euro-area demand were largely to blame.

America's industrial output rose by 0.1% in June, for a second consecutive month, making an annual decrease of 1.0%. The index of leading economic indicators rose by 0.1% in June, following the 1.1% rise in May. Consumer prices rose by 2.1% in the 12 months to June, unchanged from May.

American **consumer confidence**, according to preliminary figures from the University of Michigan's survey, rose in July. Analysts took this as a sign that American domestic demand remains strong. Another good sign: housing starts rose by 3.7% in June.

America's **federal government** posted a $21.2 billion surplus in June, down by $8 billion from a year ago. Defence spending continues to rise, however, leading to forecasts of a budget deficit above 4% of GDP by the end of the year.

Swedish unemployment, which is not seasonally adjusted, rose to 4.8% in June, up from 4.2% in May, despite strong recent economic growth.

Canadian consumer prices rose to 2.6% in the 12 months to June, down from 2.9% in the 12 months to May.

Australia's consumer-price inflation fell to 2.7% in the year to the second quarter.

Japanese industrial activity rose by 0.2% in May, according to a government survey. The services component of the index, however, fell by 0.1% during the same period.

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Output, demand and jobs

Jul 24th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 2.8	+ 3.5	nil	Q1	+ 4.0	Q1	6.1	Jun	6.5
Austria	+ 1.3	Q4	– 0.5	+ 0.5	+ 1.3	– 1.5	Dec	– 3.1	Mar	4.4	Jun	4.3
Belgium	+ 1.4	Q1	+ 0.7	+ 0.8	+ 1.6	– 3.8	May	nil	Apr	11.6	Jun†	10.4
Britain	+ 2.1	Q1	+ 0.3	+ 1.8	+ 2.5	– 2.6	May	+ 6.0	Jun	5.0	May††	5.2
Canada	+ 2.6	Q1	+ 2.4	+ 2.3	+ 3.0	– 1.0	Apr	+ 1.4	Apr	7.7	Jun	7.5
Denmark	+ 1.2	Q1	+ 1.4	+ 1.0	+ 2.0	– 0.8	May	– 1.2	Apr	6.0	May	5.1
France	+ 1.1	Q1	+ 1.1	+ 0.8	+ 1.9	– 1.5	May	– 2.0	May	9.3	May	8.9
Germany	+ 0.2	Q1	– 0.9	nil	+ 1.2	+ 0.2	May	+ 0.8	May	10.6	Jun§	9.8
Italy	+ 0.8	Q1	– 0.4	+ 0.6	+ 1.6	– 7.0	May	+ 3.0	Apr†	8.8	Apr	9.0
Japan	+ 2.6	Q1	+ 0.6	+ 0.8	+ 0.8	+ 1.7	May	– 2.3	May	5.4	May	5.4
Netherlands	+ 0.2	Q1	– 0.3	– 0.2	+ 1.3	– 3.7	May	– 0.6	Mar	5.5	Jun**	4.0
Spain	+ 2.1	Q1	+ 2.0	+ 1.9	+ 2.6	– 1.3	May	+ 2.7	Apr	11.3	May	11.2
Sweden	+ 2.2	Q1	+ 2.4	+ 1.4	+ 2.1	– 1.1	May	+ 2.7	May	4.8	Jun†	4.0
Switzerland	nil	Q1	– 1.0	+ 0.1	+ 1.4	+ 0.9	Q1	+ 0.4	Apr	3.6	Jun†‡	na
United States	+ 2.0	Q1	+ 1.4	+ 2.3	+ 3.4	– 1.0	Jun	+ 6.1	May	6.4	Jun	5.8
Euro area	+ 0.8	Q1	+ 0.1	+ 0.6	+ 1.7	– 1.3	May	+ 2.2	Apr	8.8	May	8.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.2	Q1	– 4.9	na	na	– 1.5	May	+ 3.7	Mar	9.6	Jun†	9.0
Greece	+ 4.4	Q2	na	na	na	+ 4.1	May	na		na		na
Iceland	+ 3.3	Q1	na	na	na	– 0.3	2002	na		3.2	Jun†	2.3
Ireland	+ 6.4	Q4	na	na	na	+ 1.5	May	– 2.2	May	4.7	Jun	4.4
Luxembourg	+ 1.1	2002	na	na	na	+ 1.1	Apr	+ 3.8	Feb	3.6	May	2.7
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 5.9	Q4	+ 6.4	Q1	5.0	Q1	5.3
Norway	+ 0.6	Q1	+ 1.3	na	na	– 5.7	May	+ 3.5	May	4.4	Q1	4.1
Portugal	– 1.2	Q1	+ 0.3	na	na	– 2.6	May	+ 0.3	May	6.4	Q1†	4.5

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 3.1% in June. §EU harmonised rate 9.4% in June. **Apr-Jun.

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Prices and wages

Jul 24th 2003
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2003	2004	latest	year ago	latest	year ago
Australia	+ 2.7 Q2	+ 2.8	+ 2.9	+ 2.5	+ 0.2 Q2	– 1.1	+ 4.3 Q1	+ 4.1
Austria	+ 1.1 Jun	+ 1.7	+ 1.4	+ 1.1	+ 1.7 Jun	– 1.7	+ 2.1 Jun	+ 2.4
Belgium	+ 1.6 Jun	+ 0.9	+ 1.3	+ 1.1	– 0.4 May	– 0.2	+ 1.7 Q2	+ 2.6
Britain	+ 2.9 Jun	+ 1.0	+ 2.8	+ 2.4	+ 1.1 Jun	– 0.1	+ 3.4 May	+ 3.8
Canada	+ 2.6 Jun	+ 1.3	+ 2.9	+ 2.0	– 1.7 May	– 2.2	+ 1.9 Apr	+ 2.8
Denmark	+ 2.2 Jun	+ 2.2	+ 2.3	+ 1.8	– 0.2 Jun	– 1.2	+ 3.9 Q1	+ 4.0
France	+ 2.0 Jun	+ 1.4	+ 1.8	+ 1.3	+ 0.7 May	– 1.2	+ 2.9 Q1	+ 4.0
Germany	+ 1.0 Jun	+ 1.0	+ 0.8	+ 0.5	+ 0.5 Jun	– 1.5	+ 1.2 May	+ 3.0
Italy	+ 2.6 Jun	+ 2.2	+ 2.5	+ 1.8	+ 1.6 May	– 0.5	+ 1.7 May*	+ 2.3
Japan	– 0.2 May	– 0.9	– 0.4	– 0.5	– 1.0 Jun	– 2.1	+ 2.4 May	– 0.3
Netherlands	+ 2.2 Jun	+ 3.4	+ 2.4	+ 1.8	+ 2.5 May	– 1.9	+ 2.9 May	+ 3.6
Spain	+ 2.7 Jun	+ 3.4	+ 3.0	+ 2.5	+ 0.7 May	+ 0.5	+ 4.9 Q1	+ 4.0
Sweden	+ 1.8 Jun	+ 2.0	+ 2.1	+ 1.7	– 1.4 May	– 0.2	+ 2.3 Apr	+ 2.6
Switzerland	+ 0.5 Jun	+ 0.3	+ 0.7	+ 0.7	– 0.5 May	– 1.3	+ 1.8 2002	+ 2.5
United States	+ 2.1 Jun	+ 1.1	+ 2.2	+ 1.5	+ 2.9 Jun	– 2.3	+ 3.0 Jun	+ 2.8
Euro area	+ 2.0 Jun	+ 1.9	+ 1.8	+ 1.3	+ 1.3 May	– 0.8	+ 3.0 Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.8 Jun	+ 1.1	na	na	– 1.0 Jun	– 2.3	+ 4.1 Q1	+ 3.2
Greece	+ 3.8 Jun	+ 3.3	na	na	+ 2.4 May	+ 1.3	na	na
Iceland	+ 1.6 Jul	+ 4.1	na	na	+ 3.2 Jul	+ 7.1	+ 5.6 Jun	+ 6.9
Ireland	+ 3.5 Jun	+ 4.4	na	na	–10.0 May	– 0.5	+ 7.1 Q1	+ 6.9
Luxembourg	+ 1.8 Jun	+ 1.7	na	na	+ 1.8 Apr	– 2.5	+ 1.3 Apr	– 0.4
New Zealand	+ 1.5 Q2	+ 2.8	na	na	– 1.3 Q1	+ 2.8	+ 2.3 Q1	+ 2.1
Norway	+ 1.7 Jun	+ 0.4	na	na	+ 2.8 Jun	–15.8	+ 5.3 Q1	+ 4.6
Portugal	+ 3.3 Jun	+ 3.4	na	na	+ 0.8 Jun	+ 0.5	+ 1.1 Apr	+ 0.1

*New series.

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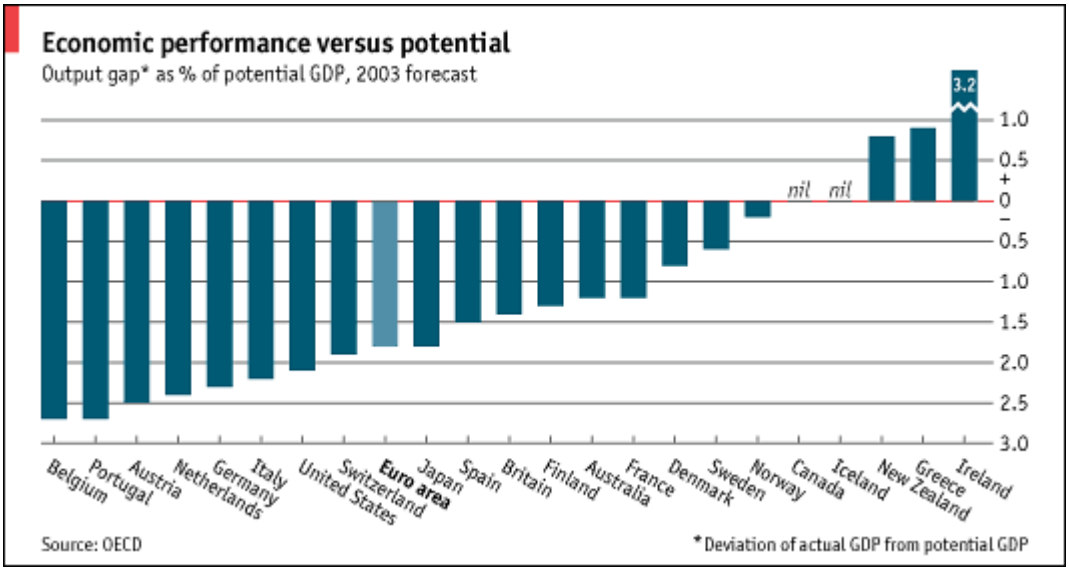
Economic performance versus potential

Jul 24th 2003
From The Economist print edition



The output gap is the difference between an economy's actual and potential GDP. But measuring potential output—which is consistent with full employment and stable inflation—is as much art as science. Countries with negative output gaps fall short of their potential GDP growth and tend to have subdued inflation, or even deflation. According to the OECD, the euro-area economies, except Ireland and Greece, fit this description.

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Money and interest rates

Jul 24th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 23rd 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.7	+11.6	May	4.71	4.92	4.54	5.31	5.77	6.00
Britain	+ 6.7	+ 8.0	Jun	3.34	3.94	3.23	4.35	4.81	5.77
Canada	+ 8.0	+ 7.4	Jun	2.80	2.69	2.79	4.75	5.28	6.46
Denmark	+ 9.7	+12.2	May	2.25	3.57	2.24	4.15	4.93	5.41
Japan	+ 4.7	+ 1.8	Jun	0.01	0.03	0.07	0.95	1.31	1.04
Sweden	+ 4.0	+ 7.1	May	2.66	4.19	3.00	4.36	5.16	3.56
Switzerland	+24.5	+10.3	Jun	0.29	1.05	0.31	2.44	2.84	3.05
United States	+ 7.0	+ 7.1	Jun	1.01	1.75	1.49	4.10	4.40	5.89
Euro area†	+11.4	+ 8.5	May	2.13	3.38	2.27	3.92	4.66	3.91

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.04%, Japan No.251 0.955%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jul 24th 2003
From The Economist print edition

1995=100

	Jul 15th	Jul 22nd*	% change on one month	% change on one year
Dollar index				
All items	76.1	75.7	– 1.2	+ 3.4
Food	74.9	74.7	– 2.5	– 2.1
Industrials				
All	77.6	77.1	+ 0.6	+11.7
Nfa†	79.5	80.0	– 1.9	+13.2
Metals	76.0	74.6	+ 2.9	+10.4
Sterling index				
All items	74.9	74.6	+ 2.8	+ 1.1
Euro index				
All items	89.0	87.7	+ 0.2	– 9.6
Yen index				
All items	95.0	96.1	+ 0.0	+ 5.0
Gold				
$ per oz	344.50	350.20	+ 0.8	+ 9.9
West Texas Intermediate				
$ per barrel	31.62	29.78	+ 3.8	+13.0

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jul 24th 2003
From The Economist print edition

Market indices

	Jul 23rd	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,068.1	3,077.0	2,673.3	- 0.2	-10.8	+ 3.1	+20.5
Austria (ATX)	1,338.9	1,350.3	1,120.2	- 0.8	-22.9	+16.4	+27.1
Belgium (Bel 20)	1,966.1	2,074.1	1,426.6	- 0.3	-46.6	- 2.9	+ 6.0
Britain (FTSE 100)	4,086.5	4,207.0	3,287.0	+ 0.2	-41.0	+ 3.7	+ 3.7
Canada (Toronto Composite)	7,231.3	7,231.3	6,228.6	+ 2.1	-36.5	+ 9.3	+22.9
Denmark (KBX)	184.6	188.8	145.0	- 1.0	-38.8	+11.0	+21.2
France (SBF 250)	2,098.0	2,154.5	1,630.1	- 1.6	-52.2	+ 2.2	+11.6
(CAC 40)	3,089.4	3,213.9	2,403.0	- 1.9	-55.4	+ 0.8	+10.1
Germany (DAX)	3,304.5	3,396.1	2,203.0	- 2.5	-59.0	+14.2	+24.7
Italy (BCI)	1,162.7	1,195.9	959.4	- 0.7	-46.7	+ 6.5	+16.3
Japan (Nikkei 225)	9,615.3	9,991.0	7,607.9	- 1.2	-75.3	+12.1	+12.0
(Topix)	941.3	979.4	770.6	- 0.8	-67.4	+11.6	+11.5
Netherlands (AEX)	306.4	337.3	218.4	- 0.6	-56.3	- 5.1	+ 3.7
Spain (Madrid SE)	722.9	739.5	576.8	- 0.9	-36.9	+14.0	+24.5
Sweden (Affarsvarlden Gen)	161.1	162.5	127.8	- 0.3	-59.8	+10.9	+20.1
Switzerland (Swiss Market)	4,903.7	4,992.5	3,675.4	- 0.7	-41.7	+ 5.9	+ 8.6
United States (DJIA)	9,194.2	9,323.0	7,524.1	+ 1.1	-21.6	+10.2	+10.2
(S&P 500)	988.6	1,011.7	800.7	- 0.6	-35.3	+12.4	+12.4
(NASDAQ Comp)	1,719.2	1,754.8	1,271.5	- 1.6	-65.9	+28.7	+28.7
Europe (FTSE Eurotop 300)*	853.3	890.8	682.7	- 1.5	-50.0	- 0.4	+ 8.7
Euro area (FTSE Ebloc 100)*	734.6	758.6	565.7	- 2.1	-52.6	+ 2.3	+11.7
World (MSCI)†	884.0	907.3	710.8	- 0.3	-39.0	na	+11.6
World bond market (Citigroup)‡	556.4	583.9	518.6	+ 0.7	- 4.7	na	+ 5.9

* In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡ Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jul 24th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Jul 23rd	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Jul 23rd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 9.5	May	− 20.8	Q1	− 5.1	− 4.3	82.9	71.0	1.52	1.86	2.44	1.74	1.28	0.2
Austria	+ 1.0	Apr	+ 2.1	May	+ 0.1	nil	103.0§	100.4	0.87	1.01	1.40	–	0.73	-1.3
Belgium	+ 17.8	May	+ 10.7	Mar	+ 4.7	+ 4.7	103.3§	99.4	0.87	1.01	1.40	–	0.73	nil
Britain	− 73.7	May	− 5.8	Q1	− 1.4	− 1.4	98.0	106.5	0.62	0.64	–	0.71	0.52	-1.9
Canada	+ 36.2	May	+ 13.9	Q1	+ 1.8	+ 1.5	83.2	74.9	1.41	1.58	2.26	1.61	1.18	1.1
Denmark	+ 9.3	May	+ 5.6	May	+ 2.6	+ 2.3	106.9	103.5	6.49	7.49	10.4	7.43	5.46	1.6
France	+ 6.8	May	+ 27.0	May	+ 1.7	+ 1.6	106.8§	102.1	0.87	1.01	1.40	–	0.73	-3.6
Germany	+127.3	May	+ 49.7	May	+ 2.1	+ 1.9	104.4§	98.9	0.87	1.01	1.40	–	0.73	-3.7
Italy	+ 3.6	May	− 13.5	May	− 0.5	− 0.5	76.1§	72.8	0.87	1.01	1.40	–	0.73	-2.4
Japan	+ 93.0	Jun	+114.9	May	+ 2.2	+ 2.4	128.2	138.8	119	116	191	136	–	-7.7
Netherlands	+ 29.6	May	+ 2.9	Q1	+ 2.5	+ 2.7	102.8§	98.4	0.87	1.01	1.40	–	0.73	-1.6
Spain	− 44.4	Apr	− 19.0	Apr	− 2.3	− 2.3	77.3§	74.5	0.87	1.01	1.40	–	0.73	-0.4
Sweden	+ 15.7	May	+ 11.5	Q1	+ 3.5	+ 3.3	80.4	74.3	8.05	9.60	13.0	9.22	6.78	0.7
Switzerland	+ 5.8	Jun	+ 32.8	Q1	+11.6	+11.3	112.3	115.9	1.35	1.46	2.17	1.54	1.13	na
United States	−525.4	May	−510.2	Q1	− 5.3	− 5.5	104.1	112.3	–	–	1.61	1.15	0.84	-4.6
Euro area	+ 84.4	May	+ 44.1	Apr	+ 0.7	+ 0.6	90.9	81.8	0.87	1.01	1.40	–	0.73	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	May	+ 10.0	May	na	na	82.2§	78.5	0.87	1.01	1.40	–	0.73	3.1
Greece	− 23.5	May	− 11.0	May	na	na	59.7§	57.7	0.87	1.01	1.40	–	0.73	-1.0
Iceland	nil	May	nil	Q1	na	na	97.2**	86.2	77.0	85.9	124	88.2	64.8	nil
Ireland	+ 36.8	Apr	− 2.1	Q1	na	na	95.5§	88.1	0.87	1.01	1.40	–	0.73	-0.8
Luxembourg	− 3.2	Apr	+ 1.8	Q1	na	na	103.3§	99.4	0.87	1.01	1.40	–	0.73	0.2
New Zealand	− 1.1	May	− 1.4	Q1	na	na	98.4	88.1	1.73	2.15	2.78	1.98	1.46	0.8
Norway	+ 27.5	Jun	+ 25.7	Apr	na	na	97.3	102.9	7.24	7.66	11.7	8.30	6.09	11.3
Portugal	− 12.7	Apr	− 8.6	Apr	na	na	92.7**	89.9	0.87	1.01	1.40	–	0.73	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, March average.

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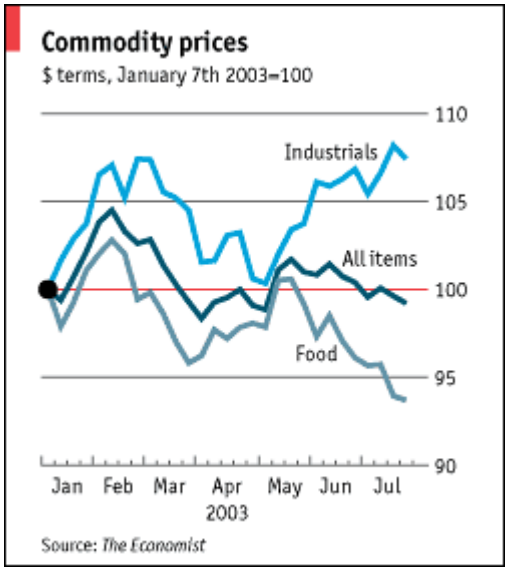
Commodity prices

Jul 24th 2003
From The Economist print edition

Since the end of April our dollar-based industrial-commodity price index has climbed by 7% on hopes of an upturn in the world economy. Nickel prices have risen by 11%, and copper prices by 7%.



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Overview

Jul 24th 2003
From The Economist print edition

Hong Kong's consumer-price index fell for the 56th month in a row in June, helped by price-cutting after the SARS outbreak. The CPI fell by 3.1% in the 12 months to June.

Singapore's consumer prices fell by a less fearsome 0.3% in the 12 months to June.

Also in the year to June, **Poland's** industrial output rose by 7.8%.

Brazil's central bank cut interest rates by 1.5% to 24.5%, as inflation dangers wane.

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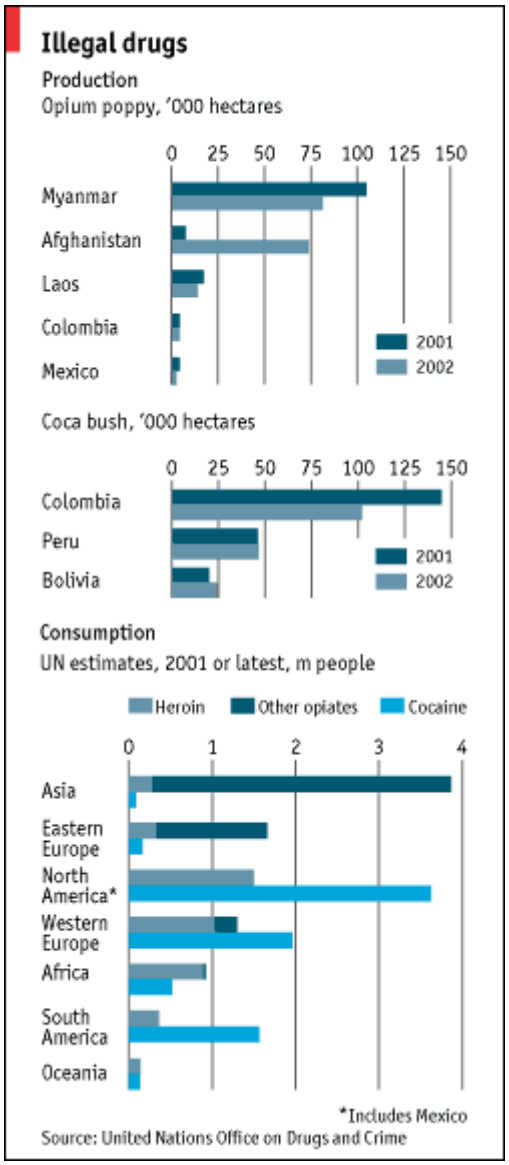
Illegal drugs

Jul 24th 2003
From The Economist print edition

With the ousting of the Taliban regime, opium production in Afghanistan, by far the world's biggest producer, shot back to mid-1990s levels last year. The area of cultivated coca bush fell by 18% during 2002, thanks mainly to a 30% fall in Colombia, easily the world's largest producer. About 200m people in the world now take illegal drugs, mostly cannabis, estimates the UN Office on Drugs and Crime. Many more countries report increases in drug-taking than decreases, but UNODC thinks that growth in demand is slowing.



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Economy

Jul 24th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+16.9	Jun	+ 0.3	Jun	+21.5	Jun	+35.4	2002	331.1	Apr
Hong Kong	+ 4.5	Q1	– 8.8	Q1	– 3.1	Jun	– 7.6	May	+18.4	Q1	114.4	Jun
India	+ 4.9	Q1	+ 5.7	May	+ 4.7	May	–10.6	May	+ 4.8	Q4	78.2	Jun
Indonesia	+ 3.4	Q1	+18.4	Mar	+ 6.6	Jun	+25.3	May	+ 7.5	Q4	33.0	May
Malaysia	+ 4.0	Q1	+16.2	May	+ 0.8	Jun	+16.3	May	+ 8.5	Q1	35.4	May
Philippines	+ 4.5	Q1	+ 2.0	Apr	+ 3.4	Jun	– 0.8	May	+ 2.9	Mar	12.7	Jun
Singapore	– 4.3	Q2	– 9.5	May	– 0.3	Jun	+12.3	May	+21.3	Q1	86.6	Jun
South Korea	+ 3.7	Q1	– 1.9	May	+ 3.0	Jun	+ 8.8	Jun	+ 2.7	May	128.3	May
Taiwan	+ 3.2	Q1	+ 2.1	Jun	– 0.4	Jun	+16.4	Jun	+25.9	Q1	176.7	Jun
Thailand	+ 6.7	Q1	+12.8	May	+ 1.7	Jun	+ 4.3	May	+ 8.3	May	38.3	Jun
Argentina	+ 5.1	Q1	+12.2	May	+10.2	Jun	+17.0	May	+10.1	Q1	12.2	Jun
Brazil	+ 2.0	Q1	– 0.3	May	+16.6	Jun	+20.9	Jun	– 0.6	May	43.4	May
Chile	+ 3.5	Q1	+ 4.0	May	+ 3.6	Jun	+ 2.5	Jun	– 0.6	Q1	15.9	May
Colombia	+ 3.8	Q1	– 3.3	Apr	+ 7.2	Jun	– 0.4	Apr	– 2.1	Q1	10.4	Jun
Mexico	+ 2.3	Q1	– 2.3	May	+ 4.3	Jun	– 6.5	Jun	–12.7	Q1	52.9	Jun
Peru	+ 1.8	May	– 0.4	May	+ 2.2	Jun	+ 0.5	May	– 1.1	Q1	9.4	Jun
Venezuela	–29.0	Q1	–14.6	Apr	+34.2	Jun	+15.0	Q1	+ 9.5	Q1	10.5	Apr
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.7	Apr	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	+ 0.3	Q1	– 5.1	May	– 0.3	Jun	– 6.2	Jun	– 0.5	Q1	24.5	Jun
South Africa	+ 2.5	Q1	– 4.0	May	+ 7.8	May	+ 3.2	May	– 0.2	Q1	6.0	May
Turkey	+ 8.1	Q1	+ 4.8	May	+29.8	Jun	–14.0	May	– 3.5	May	28.6	May
Czech Republic	+ 2.2	Q1	+ 3.2	May	+ 0.3	Jun	– 2.4	Jun	– 4.4	Q1	25.6	Jun
Hungary	+ 2.7	Q1	+ 4.4	May	+ 4.3	Jun	– 3.1	May‡	– 3.7	May	12.4	Jun
Poland	+ 2.2	Q1	+ 7.8	Jun	+ 0.8	Jun	–10.2	May	– 5.6	May	32.3	May
Russia	+ 6.8	Q1	+ 7.0	Jun	+14.0	Jun	+52.6	May	+38.3	Q1	60.7	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.9	Jun	– 1.1	Jun	+ 2.6	2002†	9.7	Apr
Saudi Arabia	+ 0.7	2002§	na		– 1.5	Apr	+38.6	2002§	+11.7	2002	23.1	Apr

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. §Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Jul 24th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 23rd		Dec 31st 2002	
	Jul 23rd	year ago	Jul 23rd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.3	na	1,572.8	-1.8	+ 10.8	+ 10.8
Hong Kong	7.80	7.80	12.6	1.19	9,900.6	-3.0	+ 6.2	+ 6.2
India	46.1	48.7	74.2	4.86	3,577.9	-3.9	+ 5.9	+ 10.2
Indonesia	8,605	9,063	13,848	9.61	512.6	-2.2	+ 20.6	+ 25.5
Malaysia	3.80	3.80	6.12	3.10	712.9	-1.6	+ 10.3	+ 10.3
Philippines	54.0	50.7	86.9	7.56	1,298.6	+2.2	+ 27.5	+ 26.1
Singapore	1.75	1.74	2.82	0.69	1,556.8	-2.4	+ 16.1	+ 14.9
South Korea	1,181	1,165	1,900	4.02	695.7	-2.9	+ 10.9	+ 11.4
Taiwan	34.4	33.2	55.3	1.00	5,287.9	-2.3	+ 18.8	+ 20.2
Thailand	42.0	41.2	67.6	1.26	480.4	-4.5	+ 34.8	+ 38.2
Argentina	2.78	3.64	4.48	8.94	747.5	+7.0	+ 42.4	+ 72.2
Brazil	2.90	2.94	4.66	25.74	13,798.8	+2.4	+ 22.5	+ 49.6
Chile	706	702	1,136	2.88	6,112.1	+1.2	+ 21.8	+ 24.2
Colombia	2,885	2,573	4,643	7.74	2,224.3	+3.0	+ 38.3	+ 37.4
Mexico	10.52	9.71	16.9	7.56	7,280.7	+3.7	+ 18.8	+ 18.2
Peru	3.47	3.54	5.59	3.41	1,837.2	+0.4	+ 32.0	+ 33.7
Venezuela	1,598	1,319	2,572	17.53	14,631.0	-2.9	+ 82.5	+ 58.4
Egypt	6.11	4.65	9.83	10.14	8,406.6§	-1.7	+ 56.5	+ 18.6
Israel	4.38	4.69	7.05	4.58	434.2	+0.4	+ 30.6	+ 41.6
South Africa	7.5	10.3	12.1	11.55	8,540.0	-2.5	- 7.9	+ 5.4
Turkey	1,409,500	1,695,000	2,268,308	34.00	10,463.8	-3.0	+ 0.9	+ 18.8
Czech Republic	28.0	30.4	45.0	2.26	552.1	-1.1	+ 19.8	+ 28.8
Hungary	231	247	373	9.87	7,985.6	-0.6	+ 2.4	- 0.6
Poland	3.84	4.10	6.19	5.26	17,318.6	-0.4	+ 20.5	+ 20.2
Russia	30.3	31.5	48.8	16.00	443.9‡	-1.1	+ 17.4	+ 23.6
EMF (MSCI)*	1.00	1.00	1.61	na	344.2	-1.8	na	+ 17.8
EMBI+†	1.00	1.00	1.61	na	271.1	+0.6	na	+ 18.4

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §July 22nd.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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